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THE MAGAZINE OF WALL STREET
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JOHN W. PRENTISS

of Hornblower & Weeks

THE MAGAZINE OF WALL STREET
(FORMERLY THE TICKER AND INVESTMENT DIGEST)

INVESTMENT: The placing of capital in a more or less permanent way, mainly for the income to be derived therefrom.
SPECULATION: Operations wherein intelligent foresight is employed for the purpose of deriving a profit from price changes.

Vol. 10 AUGUST, 1912 No. 4

The Industrial Outlook

By SYDNEY ASHTON BONNAFFON

IN view of the marked improvement which is occurring in many of our basic industries, both in volume of business and in sentiment, the question arises, to what extent is an industrial boom, similar to that of 1905 and 1906, either possible or probable at the present time? In other words, have the past two years witnessed sufficient business liquidation to form a basis for healthy improvement from now on or is the quickened industrial pace of the past few months due to specific causes and not to be looked upon as anything more than a temporary turn in the industrial tide?

In the first place, let us see what are the conditions which have usually preceded our booms in the past and then by comparison we may get some idea what sequel to expect from the conditions which have prevailed in the past two years.

During the last half century all our industrial booms of magnitude have been preceded by a period of business depression or liquidation. This period has been marked by distinct characteristics, the most important of which we may enumerate as follows: Stagnation in business, large volume of commercial failures, great numbers of unemployed, general wage reductions, heavy falling off in imports reflecting a decrease in the purchasing power of the people, low commodity prices and rents.

The general liquidation releases large quantities of previously tied up capital, which gradually finds its way into the banks. The uncertainty and fear of the future leads to saving and economical living among the masses, which swells the large accumulations of idle credit. This period of hard times may last anywhere from one to five years, but the average duration of depressions in the United States has been approximately two years.

Next follows a period of improvement, which reflects the first signs of returning confidence by a gradual rise in the price of standard bonds. This is the direct result of the pressure of idle money seeking investment. Railroad and other corporate interests find this an exceptionally good time to float low interest, long term obligations and thus provide themselves with the means of extending and improving lines, equipment, etc., at

a low interest cost. The spending of large quantities of capital so obtained gradually sets the wheels of industry in motion, and the height to which the accompanying prosperity may ascend will depend upon the degree of previous liquidation, or upon the amount of credit that had been accumulated therein.

Having now laid down a measure of liquidation, as it were, and at the same time pointed out the process by which improvement and then prosperous times may come about, it remains to apply these principles to the conditions which have prevailed during the past two years, and in this way obtain, if possible, some conclusions of value.

In reviewing business conditions as they have prevailed throughout the country beginning with the second half of 191C and extending down to the present time, we fail to find the industrial stagnation which we would expect to characterize a period of even moderate depression. Bank clearings (excluding New York City) have shown a steady and healthy advance. The gross earnings of railroads have reflected a constant increase in the volume of freight and number of passengers carried. And as for a falling off in imports, to suggest a decrease in the purchasing power of the people, or a disposition on their part to save, nothing of that kind has occurred. Imports have maintained the high average level of 1909, and are now showing a disposition to make a record volume.

While it is true that immigration has fallen off to some extent, this is partly due to the good times which have prevailed in Europe. Certainly the number of unemployed during the past two years has been comparatively small, and the tendency of wages has been to increase rather than decrease. In fact labor has found very little trouble in having its demands satisfied.

Statistics relative to commercial failures likewise fail to suggest a prevalence of hard times. In fact, the volume of liabilities has constantly indicated that conditions were comparatively prosperous. True, the number of failures throughout the country has been gradually increasing, showing that pressure has been bearing upon the small business people. But without a corresponding increase in the total liabilities any large volume of liquidation is not suggested.

Coming to the cost of living, we find that very little if any relief has been afforded in this respect. Commodity prices, which showed some inclination to decline during 1910 and the first half of 1911, are now at their highest in twenty years. Making all allowances for the fact that the purchasing power of money is decreasing, owing to increased gold production and other causes, this tendency on the part of commodity prices to increase at so rapid a rate certainly does not suggest that liquidation has laid a basis for the healthy improvement we would like to see.

Again, it is frequently pointed out that railroads and industrial corporations have been economizing. This is undoubtedly true, and would be a most gratifying condition were it not for the fact that where the greatest economizing has occurred it has been to maintain high dividends, frequently on excessive capitalizations. Furthermore, the banking figures of the country, while not reflecting any important strain at the present time, do not show the liquidated condition industrially and financially which prevailed previous to the prosperous times of 1901-2, 1905-6, and 1909.

Commenting on the characteristics which may be noted in regard to the recent business improvement, it is interesting to note that instead of an underlying betterment in conditions being reflected by a rise in the prices of standard bonds, a pronounced sagging tendency has prevailed for several months past. Certainly this fact, together with the small success attending the last New York City bond sale, hardly suggests any large accumulation of idle money waiting to be employed.

Should we conclude from our failure to discover the thorough business liquidation which we feel should precede an era of prosperous times, that the recent activity in the copper and steel industries and the improvement in business sentiment generally is simply a temporary betterment, the question then arises: What is the cause of this improvement, what characteristics is it likely to as-

sume, how long may it reasonably be expected to continue, and with what sequel?

In the first place it must be remembered that the leading industrial nations of Europe did not recover from the panic of 1907 as abruptly nor as rapidly as we did. The recovery here was stimulated by the efforts of business men's committees in their promotion of the so-called "sunshine movement." Their constant preaching and talking optimism, good times, etc., undoubtedly had the effect of bringing about a rapid return of confidence at the expense of normal and healthy liquidation and the weeding out process which would naturally have occurred. Had our recovery not been premature and had many questionable and unsound enterprises been dissolved, which were tided over, the unsatisfactory conditions of the past two years would hardly have prevailed.

Europe, on the contrary, recovered slowly, and only after thorough liquidation had occurred. It was the refusal of foreign bankers to make further credit extensions to speculators here which halted our over-recovery in 1909. This conservatism and recognition of the teachings of the crisis of 1907 by the bankers and business men of England, France and Germany has been rewarded by the prosperous times which have prevailed there for over two years past. In fact it has been this European prosperity and its consequent demand for our raw materials which has been responsible for the comparatively high level of business in our own country at a time when domestic consumption has been contracted, sensitive and erratic.

The inability of European manufacturers and producers to take care of their home demand and the high prices prevailing there have enabled our manufacturers to secure an unusually large amount of foreign business. This is accurately reflected in our exports of non-agricultural materials. Taking the month of December as a criterion we have, starting with the year 1908, $74,000,000 of this class of exports; 1909, $83,000,000; 1910, $94,000,000; 1911, $116,000,000. From December, 1908, to December, 1911, the per cent. of non-agricultural exports to total exports rose from 39.3 per cent. to about 51.5 per cent.

During the latter part of 1911 and throughout the current year to date the continued prosperity in Europe has created an increasing demand for our commodities and raw materials. For example, copper metal, of which we produce nearly 60 per cent. of the world's supply, has risen from twelve cents a pound a year ago to above seventeen, owing almost entirely to increased foreign consumption.

The current improved conditions in our steel and iron industries also owe their inception to outside demand. Large railroad gross earnings, bank clearings, and the fact that there are at present few men out of work, are features which can be traced, in large part, directly to our foreign trade. In other words, industrial activities in other parts of the world have formed a continual check for two years to the declining industrial tendency in the United States. Under this stimulus the liquidation which a study of past conditions suggests that we must look forward to, has been temporarily delayed.

But this delay must of necessity be only temporary. Even now we hear from time to time the rumblings of monetary troubles in Berlin. Conservative men of high financial standing in the world's great credit centers, men whose opinions warrant respect, are pointing warningly to the threatening financial clouds now overcasting Europe, just as they did when our own country was over-indulging in speculation in 1909.

Within two months the autumn credit tightening will be upon us. Any further business improvement from now on, either here or in Europe, will be reflected in a threatening and possibly serious international money strain. Our loans to Germany could not be recalled at this juncture without causing great inconvenience and trouble, and a crisis in Berlin at the present time would be likely to mean hard times to all the great industrial nations.

The present situation, viewed locally or internationally, is fraught with a danger and an uncertainty which warrants the greatest conservatism and watchfulness upon the part of the business man or the investor.

Why Crop Outlook Is Especially Important

We are Approaching a Transition Period

By WILLIAM T. CONNORS

[A great change in the situation affecting our leading cereal crops and their prices is now near at hand. The United States is rapidly losing its position as the leading exporter of grain. The results of this change are of far-reaching importance, and are concisely pointed out in this article.]

AT this season the attention of investors is always fixed on crop developments as an important part of the situation. We tell each other that we must have good crops if prosperous conditions are to be maintained; but it is to be feared that many of us accept this merely as a trite and well understood fact, without analyzing the changes in general industrial conditions which make the crops more important in one year or less important in another.

The most prominent feature of the industrial world in 1912 is probably to be found in the continued and phenomenal rise in general prices, or as it is commonly expressed, the increase in the cost of living. According to the most scientifically constructed of our American index numbers—or averages of the prices of articles entering into general consumption—this increase has been over fifteen per cent. within a year's time.

Such a movement of prices is very exceptional and must unavoidably have a great variety of effects on different industrial conditions. The advance abroad has also been noteworthy, but not equal to that in this country; and one important reason why American prices have gained more than those of other countries is found in our crop situation.

The root of the matter lies in the fact that the United States is gradually ceasing to be an exporter of agricultural products, with the notable exception of cotton. Our population is catching up with the capacity of our farmers to raise crops.

CROPS AND POPULATION.

A bulletin just issued by the Census Bureau reduces this fact to exact figures, and shows that, while our population increased 21 per cent. during the decade ending with 1909, our production of cereal crops increased only 1.7 per cent. In the same ten years, however, the value of cereal crops increased 79.8 per cent.

These figures contain the explanation of many things that cause the most comment in our present situation. The continuing and growing prosperity of the farmers, for example, is a mere corollary of the statement that the value of their crops has almost doubled in ten years while the actual work of producing those crops is less, although the cost of production would show some increase because of higher prices for materials and for hired labor.

The rush of pioneers across our Northwestern boundary line into Canada, carrying with them in the aggregate an immense amount of capital; the wonderful growth of cities and of real estate values in the Canadian Northwest; the great prosperity of existing Canadian railroads, and the rapid building of new lines in Canadian territory—all these features may be traced directly to the growing disparity between population and wealth on this side of the line.

Likewise discontent among wage workers and salaried employees results largely from the fact that food prices have bounded upward. These classes show their discontent by their votes, and political unsettlement follows.

On the other side, the big rise in values of agricultural land is, of course, traceable to the higher prices for farm products. It is fashionable for writers on investment subjects to talk about the extravagance of the farmers in buying automobiles, pianos, etc.; but the value

of the average Western farm has increased enough within a few years to buy two or three motor cars suited to the farmer's use.

The ownership of an automobile, in many cases, changes the farmer's whole mode of life and his ways of doing business. He goes to town in half an hour where formerly an arduous journey of two or three hours was necessary. His social enjoyments are increased and his entire outlook on life is modified by the ownership of a car. Very likely even his vote may be influenced as a result of the difference in his attitude toward things in general.

Formerly land more than ten miles from the railway was much cheaper than that which was situated nearer to transportation, but with an automobile twenty miles or more is no serious hardship. Instead of paying $10,000 for a farm near the railroad, the shrewd farmer may prefer to pay $5,000 for more distant land and $1,500 for a serviceable car. This gradually brings up the price of the outlying land.

FOOD COST IN EVERYTHING.

When the crops sell 75 per cent. higher than ten years ago, it means that the food-cost in everything has risen just that much. For no matter what article you buy, it consists, in the last analysis, merely of raw material with labor added, labor being far the most important item; and labor requires for its maintenance just three things—rent, food, and other products, and these other products in turn consist of raw material and labor.

The next crop in importance after the great cereals is hay and forage, and the increase in the value of these during the decade was nearly as great as for the cereals—70.2 per cent. Total production, however, gained 23 per cent. Some of this gain was at the expense of pasturage, for there was an important decrease in both the acreage and productiveness of pasture lands.

The cereals, hay and forage, and pasturage are the three principal elements (besides labor) which enter into practically all animal products—meat, butter, milk, eggs, wool, leather, etc. And of course we must figure food-cost for animals as well as for man.

Our remaining big crop, cotton, is in a somewhat different position. The increase in value for the ten years was 117.3 per cent. and the increase in production only 11.7 per cent. But so large a part of our cotton is exported that the increase in the value of the exports has to a great extent balanced the greater cost of cotton for domestic use. As a nation, we have, directly or indirectly, forced the foreigner to stand most of the pressure resulting from higher cotton prices.

TRANSITION FROM THE EXPORTING TO THE IMPORTING STAGE.

A question of special interest in analyzing this situation is, What happens to prices when a country, through growth of population, passes from the exporting to the importing stage? It is quite true that other influences, especially the increased production of gold, have aided in advancing prices, but as regards the value of our great cereal crops, the above question is the most important and significant that can be raised.

Prices have risen the world over, but they have risen much more in the United States than elsewhere. This is due to some extent to an artificial plane of prices for manufactured articles maintained by our policy of tariff protection, but the principal cause lies in the exceptional advance in the value of our great agricultural products; and the controlling reason for that exceptional advance has been the growth of our population to a point where we consume nearly all of the food-stuffs we raise.

An illustration will show the importance of this element in the situation. Suppose we assume the following costs for producing and transporting wheat:

Cost to domestic consumer........	$1.00
Cost of transportation abroad......	.20
Cost to foreign consumer.........	1.20
Cost of transportation on wheat imported	.20
Cost of imported wheat to domestic consumer	1.40

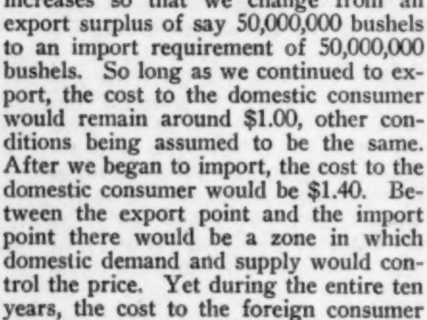
It is understood that these figures are arbitrarily assumed, merely for the purposes of illustration. Tariff duties are neglected, because they may be changed or abolished.

It is, of course, the surplus that es-

tablishes the price of the whole crop. So long as we continue to export in any important volume, the whole scale as given above will be fixed by the value at the points of foreign consumption. If, owing to poor crops in Europe, this value should rise to $1.50, then the cost to the domestic consumer would be $1.30, and if it became necessary to import wheat, the cost to the domestic consumer would be $1.70.

Now let us suppose that during a period of ten years our home production increases so that we change from an export surplus of say 50,000,000 bushels to an import requirement of 50,000,000 bushels. So long as we continued to export, the cost to the domestic consumer would remain around $1.00, other conditions being assumed to be the same. After we began to import, the cost to the domestic consumer would be $1.40. Between the export point and the import point there would be a zone in which domestic demand and supply would control the price. Yet during the entire ten years, the cost to the foreign consumer has been arbitrarily assumed as remaining stationary at $1.20.

To put it in another way, the price of wheat in this country would rise 40 cents a bushel more than any advance in the price in Europe, because of the fact that we had changed from an exporting to an importing country.



The diagram herewith brings out this point clearly. The line represents the course of the domestic price of wheat during five decades under the conditions assumed in our example. We show a slow rise in the world's price for the entire fifty years as a result of growth of the world's population.

That something of this kind is now taking place in connection with the prices of our principal crops any one will conclude who studies our agricultural exports during recent years. We now import various kinds of agricultural produce from Canada nearly every year, and last year we reached the point of importing potatoes from Europe. Our exports of grain are falling off regularly and rapidly. We are approaching the end of our career as exporters of food-stuffs.

This is a condition for which there is apparently no possible remedy. Population will continue to grow and land does not grow. More intensive cultivation and the bringing under the plow of some areas not yet in use will gradually increase our production, but this movement will be slow and relatively unimportant so far as its immediate effect on prices is concerned. Surplus food-stuffs for the congested parts of the world's population must be hereafter raised in some other country than the United States.

FAR-REACHING EFFECTS.

When we stop to consider this situation carefully, we see that its bearing is fundamental. If we cannot look for any important permanent decline in the prices of food-stuffs, then, by the same token, prices of farm land must also be maintained at a relatively high level. There will doubtless be over-speculation in lands from time to time, as always in the past, and resulting reactions in prices; but the general course of farm values must continue to be upward, and as we pass out of the exporting and into the importing period of our existence as a nation, the upward movement of land prices must be especially strong. Here is the explanation of that remarkable and sustained increase in the values of Western farms which has aroused so much discussion.

From this point of view, it appears clear that over-extension in real estate is likely to appear next in city and suburban lands, where the high cost of living operates against land prices, instead of in their favor as with farm lands.

Again, the forces of discontent will in future be found chiefly among wage and salaried workers, not among the farmers. The days of Grangerism and Populism

are passed and the day of Unionism, Socialism and Syndicalism has come. The farmer is on the right side of the cost-of-living fence.

The fact that any severe liquidation of farm lands is highly improbable is most important to the welfare of those railways which lie in agricultural sections. They can depend upon sustained gross earnings while the farmer is prosperous. This is a consideration that the investor in railway stocks cannot afford to overlook.

On the other hand, those industries which manufacture or sell semi-luxuries used chiefly by the wage and salaried classes, are likely to feel the effects of the high cost of living more and more keenly as the years pass. These trades cannot count upon the permanent continuance of such prosperous times as they experienced from 1897 to 1907, with brief and unimportant interludes. Whenever dullness of business appears, it will press harder and harder upon the factory operative and the clerk.

The political effects of such conditions are already seen in England, and economic forces are pushing the United States in the same direction. The alignment will come between the forces of radicalism and of conservatism, the latter including the vast majority of farmers who own their own land.

In its immediate effect the outlook is, from this point of view, encouraging, because it tends toward the present maintenance of prices. A general fall in prices is always a painful process. If periods of industrial over-stimulation can be healed by mere rest and dullness, instead of by several years of severe liquidation, much waste and loss will be avoided. And the maintenance of agricultural prices and of farm lands will aid greatly toward this end.

Crop prospects, then, although always important, are especially so at the present time, when we are nearing the period of transition from exports to imports of food products. A bumper crop now will have much more effect on the cost of living than it would have had ten years ago; and contrariwise a crop failure would result in a rise in prices altogether disproportionate as measured by average conditions of past years. It is more than ever essential for the investor to keep one eye fixed on the crop outlook.

The Government crop report for July shows a somewhat better prospect than last year, and may be described as good, with the exception of wheat. The extensive plowing up of winter wheat reduced that crop to such an extent that combined winter and spring wheat crops are not likely to exceed the rather small figures of last year. Corn, it is to be borne in mind, has the critical period still before it.

Indicated Harvests 1912.

	Estimated July, 1912.	Harvest 1911.
Wheat—		
Bushels	629,000,000	621,338,000
Acreage	44,945,000	49,543,000
Corn—		
Bushels	2,811,000,000	2,531,488,000
Acreage	108,110,000	105,825,000
Oats—		
Bushels	1,139,000,000	922,298,000
Acreage	37,844,000	37,763,000
Rye—		
Bushels	34,032,000	33,119,000
Acreage	2,127,000	2,097,000
Barley—		
Bushels	194,000,000	160,240,000
Acreage	7,754,000	7,627,000

Random Shots

Don't come within gun shot of risking your subway dollar on any single investment.

The advance of civilization places no limit on the downward tendency of interest rates.

Better lose your money than your character. Never apologize for being conservative.

Like the consolation given the old maid, better to have investigated and lost than not to have investigated at all.—*Bonds and Mortgages.*

Copper and Steel

The Peculiar Situation of the Metal Markets

By J. HOWARD GIBBS

THE condition of the market for copper metal has become the subject of heated controversy. The last statement of the Copper Producers' Association shows stocks of marketable copper in the United States but little over one-quarter those of a year ago, with no increase in production. The world's visible supply of copper is figured at about one-third as much as last year.

These figures are indeed sensational and in response to them the price of electrolytic copper rose from 12 cents in May, 1911, to 17¾ cents in June, 1912; yet in the face of this condition a panicky break in copper has recently occurred in the London market and prices at New York on actual sales have fallen to a basis of 16¾ cents, although the big copper selling agencies are still holding out for 17¾ cents. Even at the decline no export business can be done, as copper is now cheaper abroad.

It has all along been strongly asserted by some writers on the copper situation, that the high prices have been largely due to manipulation; that considerable stocks of "blister" or unrefined copper are accumulating in this country as a result of the increased production; and that quantities of refined copper are being stored in Europe at points where they do not appear in the world's visible.

In fact, it is definitely stated that "there are 10,000 tons of refined copper in France, not included in the statistics, but against which loans have been made by foreign bankers to speculators. Similar conditions prevail in Hamburg, where also about 10,000 tons, it is estimated, are being carried on similar account, and from 5,000 to 10,000 tons more are in other Continental European countries.

"In this country 13,000 tons more copper were received from foreign countries since January 1 than during the first half of last year, and the output from domestic new mines has increased about 60,000 tons. Very little, if any, of this increase has been reported by refining interests, and the metal is held in stock, whether passed through the refining process or not. In consequence it is estimated that fully 100,000 tons of copper is in stock and not included in the fragmentary statistics.

"It is this large supply of copper which has been rumored to exist for many weeks that has brought about the heavy liquidation in standard contracts at London."

Thus we have one party pointing to the sensational decline in stocks of copper and expressing fears that the price may burst out of all control and soar to indefinite heights, while the other party is at the same moment asserting that the recent break marks the end of a period of high-handed manipulation and unrestrained speculation, and inquiring whether a collapse like that of 1907 and 1908 is not imminent.

In searching for the truth of this matter, we must first admit that it is not at all difficult to hold copper out of the statistics. Neither in this country nor in Europe is it possible to estimate the amount of refined copper in second hands held for speculation or bought to supply future requirements. It would also be perfectly feasible to hold back large quantities of blister copper at the refineries in order to stimulate the market. Copper production is so centralized that the latter operation would be especially easy.

The trade in copper futures is handled in London. There is no general public participation in this trade. Speculation is for the most part confined to wealthy interests who understand the copper sit-

uation. It is therefore by no means impossible that these interests might carry considerable stocks of the metal at Hamburg or other European points, not included in the world's visible, simply as a move in a big speculative campaign. But the fact that these things could be done is far from proving that they have been done.

It is the increase in foreign consumption that has depleted stocks of copper. The estimated European consumption in recent months, as compared with the corresponding months of the preceding two years, has been as follows (in pounds):

	1912.	1911.	1910.
England (5 mos.) ...	69,516,160	86,236,840	66,044,480
France (5 mos.) ...	76,646,080	62,661,760	49,710,080
Germany (4 mos.) ...	158,063,360	122,740,800	111,917,360
Other countries (5 mos.).	39,874,246	29,680,240	26,362,560
Total...	344,099,846	301,319,640	256,034,480

It will be noticed that the increase over last year is practically all in Germany, where an excited industrial speculation has been under way. A reaction from the extreme demands for that country is entirely probable.

Most of this increased consumption was undoubtedly of copper bought under 15 cents; for the average monthly price at New York did not exceed that figure until May of this year. That higher prices have checked consumption to some extent is shown by the decrease in our export deliveries to 61,000,000 pounds in June, against 69,000,000 in May, 1912, and 71,000,000 in June, 1911.

The most astonishing feature of the statistics and the one which arouses the most skepticism, is that the United States production has not shown any increase from a year ago, although during that time the price has risen 50 per cent. The average observer will conclude that there is a "nigger in the woodpile" somewhere in connection with these figures. It is a common sense proposition that more copper will be mined at 17 cents than at 12 cents, and increased activity at various mines is actually reported. There must be somewhere an accumulation of unrefined copper.

It is also a well-known fact that stocks of any commodity in second hands are likely to increase with rising prices. Presumably this has been true of copper in this instance.

On the other hand, the sources of copper production are strictly limited. There cannot be any such increase as would be the case with corn or pig iron on a similar advance in price. And even allowing for a moderate accumulation of copper outside statistical reckonings, the extremely sharp decrease in visible supplies seems to make the conclusion unavoidable that a relatively high plane of prices for copper will be maintained, if the world continues industrially active. If a period of general depression were to set in, all such conclusions would of course be nullified.

The situation in the steel and iron trade is curiously different from that of copper. In copper we have small production and high prices; in steel large production and low prices.

In the first half of the year, the steel companies are estimated to have taken orders for about 10,000,000 tons of finished product. Of this total the U. S. Steel Corporation booked about 6,000,000 tons. Railroad orders were responsible for perhaps 3,000,000 tons.

This is a big business. Steel rail orders, for example, were 1,920,000 tons for the six months, against 1,194,000 for the first half of 1911, and 936,000 for the corresponding months of 1910. The equipment companies booked 101,000 cars, compared with 38,000 in 1911 and 96,500 in 1910.

Moreover, the volume of new orders is holding up remarkably well. Even in June, with plants running at practically full capacity, with the political campaign just beginning, and the summer dullness approaching, there was an increase in the U. S. Steel Corporation's unfilled orders on hand. Production of pig iron is close to high record figures, though difficulty in obtaining coke has prevented the blowing in of some merchant furnaces.

Prices have been very low. There has been a little advance in the last few months, amounting to $2 to $4 a ton on steel products, but they are not yet up

to a level which will yield any large profits.

Pig iron, after selling above $27 in 1907, reached its lowest price at an average of $14.88 for the month of December, 1911, and up to this writing has advanced only about $1 a ton.

Unquestionably it is the low prices that have encouraged the large business. This has been especially true of exports, which are running nearly 50 per cent. over last year. Some of the notable increases in exports for 11 months ending with May have been as follows:

	1911.	1912.
Wire rods, lbs.	38,145,112	96,174,637
Bars, lbs.	249,417,584	293,831,813
Billets and blooms, tons	167,718	210,581
SHEETS AND PLATES.		
Iron, lbs.	207,447,190	373,975,454
Steel, lbs.	408,665,650	561,215,482
Tin, terne plates, lbs.	60,797,040	161,227,230
Structural iron and steel, tons	156,331	219,534
WIRE.		
Barbed, lbs.	169,037,735	213,193,637
All other, lbs.	224,149,640	288,676,939
Wire nails	104,944,444	129,634,057
Pipes and fittings, lbs.	367,384,162	471,996,526

Another line of business encouraged by low prices has been fabricated structural steel for buildings. During six months total orders were about 760,000 tons, which fell only a trifle short of the record business of 1910 and 1906.

In the Pittsburgh district scarcity of labor has become a feature, due largely to increase of productive capacity by the mills and to abandonment of the seven-day schedule. It is not generally appreciated that the Steel Corporation has spent more in improvements to its property in Allegheny County than it expended on its new plant at Gary. Other concerns in the Pittsburgh district have also added largely to their capacity.

In the past it has been noticed that activity at low prices in the steel trade has usually preceded an important upward swing; but every period has its own peculiar characteristics. There can be no doubt that, in 1910, the increase in productive capacity had exceeded normal consumptive requirements. Requirements have had two years in which to grow, but it is a question whether all our mills can yet be kept continuously busy at high prices.

The Extraordinary Movement of Gold

By FRANKLIN ESCHER

Author of "Elements of Foreign Exchange"

MID-YEAR finds the United States thirty million dollars behind on its operations in gold with the outside world. We have gained steadily on the merchandise movement—for the fiscal year just ended, the balance of exports over imports ran in excess of $550,000,000. If, during the past six months, we have not placed many securities in Europe, we have at least sold as many stocks and bonds abroad as have been sold here. Yet we have been shipping gold—as though we were debtors instead of creditors. No wonder that this anomaly of an outflow of gold at a time when we have been piling up balances abroad should be regarded as one of the most puzzling features of the situation.

And, indeed, no very profound study of conditions affecting the exchange market is necessary to see that the movement of gold so far this year *has* been extraordinary; that is to say, that the metal has not gone out in the course of regular foreign exchange operations. We certainly have not shipped gold because we owed money on the other side. It is perfectly plain, on the contrary, that the balance is all in our favor. Against the enormous balance of trade rolled up during the past twelvemonth, there must, of course, be placed the big sums we owe for freights and insurance, interest on foreign money invested here, American tourists' expenses, etc., but these charges this year have been no heavier than usual and out of a favorable trade balance amounting to nearly $600,000,000, it is possible to take a good deal and still have some left over.

Had there been abnormal selling of American securities by the foreign markets, that might offer the explanation, but no such selling movement has taken place. It is difficult, of course, if not impossible, to ascertain the extent to which international purchases of securities offset one another, but by all the signs from which this can be read, it is plain that there has been no great balance one way or the other. The fact of the matter is that, taking our financial transactions with the outside world as a whole—merchandise movement, security movement, and all—we have been gaining steadily in credits and still losing gold to a large extent. Such a movement cannot be explained in the ordinary way. Wall Street has come to realize that for such a movement very special causes must be responsible.

There are two things which can have brought about this movement of gold under the conditions which have existed. Probably both of them have contributed somewhat. The first is the state of the financial markets in Germany—a condition of things which has necessitated the drawing of gold from the outside markets at whatever premium was necessary. The other is Italy's need for gold growing out of its long-drawn-out war with Turkey.

To get a clear idea of the manner in which the first of these two influences has been operative, it is necessary to go back a whole year to last August. At that time, it will be remembered, the danger of war between Germany and France over Morocco was imminent and there was serious unsettlement in all the Continental markets. When the storm-cloud was at its blackest, the French bankers who had large sums of money loaned out in the Berlin market began to withdraw these credits on a large scale, and the result was that Berlin was hard put to it to find financial accommodation to take the place of that which was being withdrawn. In the averting of the crisis which it has since appeared was then so near, this power exercised by the French bankers over the Berlin market played a most important part. As it was, the withdrawals of French capital came very near converting Berlin's crisis into a panic. Nothing, in fact, but the willingness with which American bankers poured their capital into the German market saved conditions there from becoming actually very much worse than they did become.

Things at that time in Berlin were made all the worse by reason of the speculative movement in progress. When the trouble with Germany seemed most imminent, a determined effort was made by the big German bankers and the Government too put a check upon the speculative movement, and, to a certain extent, this was effective. But after the crisis had passed, speculation broke out afresh, and, in spite of all efforts made to put a check upon it, the speculative movement increased steadily in size and intensity. The result was that the relief afforded by the influx of capital from the United States was only temporary. The amount sent over, large as it was, turned out to be not nearly enough to finance the movement, and throughout the remainder of the year fresh demands were made upon the New York money-market and high rates were offered for the use of our funds.

There is no doubt that statements of the amount of money loaned out by New York bankers in Germany have been greatly exaggerated, but it is undoubtedly true that the sum total ran well into nine figures. And, as New York showed its willingness to loan in Berlin, the Paris bankers continuously took advantage of the opportunity to withdraw the funds which they had on deposit in the German capital. That resulted in a still greater need for capital with which to carry on the speculative movement, and more demands upon the United States for accommodation. Then came the end-of-the-year settlements and with them a still greater pressure upon the German market. The exact figures are hard to get at, but probably there is no exaggeration in the statement that when last year came to an end, New York's loans to Berlin amounted to $150,000,000.

In the making of these loans the exchange market was driven to a high level and kept there. When New York or any other market loans funds largely in another market, the way in which the transfer is made is by remittances of bills of exchange. Naturally, when the demand for bills with which to make these

remittances grows to the extent to which it grew this Spring, the result is that exchange rates are influenced upward. In March, indeed, the level of the exchange market got so high that considerable amounts of gold were shipped to the German market by way of Paris. On these transactions there was no profit, but Germany wanted the gold and was willing to pay the loss entailed by bringing it in, regarding that as a premium for the specie it wanted. That, probably, is the reasonable explanation of the first part of this year's gold movement. It was simply a case of a market which, because a large part of the capital on which it was depending had been withdrawn, needed gold badly, and was willing to pay a premium for it.

The second great reason for this year's gold movement is Italy's need for cash with which to carry on the war in Africa. When the struggle began the Italian war-chest was well provided, and, the impression prevailing that hostilities would be short-lived, it was not thought that it would be necessary for the Italian government either to float a loan or to go into the outside markets for gold. The former expedient has not yet been necessary but the latter has. Well supplied with cash as was the Italian treasury at the outbreak of hostilities, the dragging out of the war for a period of so many months and the expense of conducting operations at so great a distance from home has made replenishment necessary. The time has finally come when, in order to pay running expenses, it has become necessary for the Italian government to bring in gold from the outside.

Financial relations between the New York market and the Italian money centers are not close enough to warrant arrangements for the direct import of gold from New York to Italy, and so it became necessary to work the transfer through Paris. Between New York and Paris very close financial relations exist, and the same thing is the case between Paris and Rome. Figuring it out, therefore, the Italian bankers found that it would be much more advantageous to have Paris import the gold from the United States for their account than for them (the Italian bankers) to do it for themselves. Arrangements were, therefore, made by which, regardless of the immediate state of the foreign exchange market, Paris was to have certain sums in gold sent over from the United States, the idea being that this gold would be passed along to the Italian bankers, they, so to speak, "paying the freight."

On some of these transactions the loss has, without doubt, been considerable, but Italy, needing the gold, has been willing to pay the necessary premium. Some of the shipments have cost more than others —none of them have been made with any regard for the state of the foreign exchange market. Just what it has cost the Italian government to bring in this gold it is hard to say, but it is certain that on several of the shipments which have been made the "premium" has amounted to several thousand dollars on each million in gold shipped.

That Germany and Italy have thus found it possible to take gold from the United States during the past six months is due entirely to the fact that the United States is the world's one great, free gold market. We had the gold here, and without any central bank to protect the market, it was possible for Germany and Italy, upon payment of what really amounted to a slight premium, to come here and get what they needed. Of course, had money rates here been high, the cost of taking the metal from this side would have been such as to make it more difficult, if not prohibitive. But with rates here as low as they were, and money in plentiful supply, it was the easiest thing in the world for both Germany and Italy to supply their needs at our expense. Had it been France or England to which these nations turned for the gold they needed, there would soon enough have been a rise in bank-rates and other obstructionist tactics by the central banks concerned, which would have put a speedy stop to the outflow. This market, however, as has repeatedly been the case in the past, was in no position to protect itself. We had the gold and it was easy enough to take it from us. Whether or not we could afford to spare it is another question. That remains to be seen.

BOND DEPARTMENT

What an Investor Ought to Know

V—That the Ultimate Safety of a Bond is in Ample Earnings

By FREDERICK LOWNHAUPT

[Under the above caption it is intended to present a series of articles treating many of the fundamental facts that are either never learned by many investors or apparently overlooked in the purchase of investments. Discriminating selection is no easy matter. Without a knowledge of the basic principles underlying the science of investment rational selection is impossible. The aim of these articles will be to give many facts in readable form—facts which in themselves are technical, but which, co-ordinated, explained and placed in proper relation to each other, are both interesting and easily understood.]

THERE are two great factors in the selling arguments built up around every bond or preferred stock issue. One of them is the assets back of the security, and the other the amount of earnings shown in any one year or over any series of years as available for the interest or dividends upon the stock or bond.

It is of course a pleasurable task for the salesman to point to large assets upon which to claim high investment worth. Often, however, the salesman himself scarcely appreciates the necessary distinctions between safety based on assets and safety arising from excellent earning power.

It is quite natural that the average person should assume that a bond having a large amount of property behind it may be accepted as safe. The average investor, and in fact the average seller of bonds, feels a certain sense of security when he sees large amounts of property set out as the basis of a bond. And there is good reason for this attitude of mind. There is something tangible about the property that the investor looks to when he makes a rough calculation as to how much he would get for his debt in case the property had to be taken for its satisfaction.

When you buy a mortgage on real estate, the selling value of the property is almost the sole consideration upon which the loan is based. By much the same process of reasoning the investor may decide upon the purchase of a railroad or industrial bond. Upon critical analysis, the analogy between the cases soon disappears. There are certain conditions surrounding a piece of real estate that are entirely absent in the case of an industrial plant and are positively unthinkable in the case of a big railroad system. The investor who buys a real estate mortgage really does, generally, get the specific piece of property just in the way anticipated, in case of default in the payment of interest or principal.

But the case with industrial corporations and railroad systems is very different.

It is true that in each instance, and especially in the case of industrial bonds, a large property account is a very desirable foundation upon which

to build. However, it must be said that this factor has no great weight in the case of railroad systems—although with a public utility corporation, say a power concern, it takes on some significance.

Even where the showing of assets is large there is still some analyzing to be done. The character of the large amounts in the assets column is of vital importance. The average investor, looking at the balance sheet of a corporation, either does not grasp the full import of the figures, or is misled by an imposing array of figures set down as assets. Especially does this apply to the industrial corporation, where such items as patents, good will, etc., are elastic enough to meet the optimistic estimates of the most enthusiastic board of directors or auditor. This is not to say that these items are of no value, but the element of worth they represent is one that is subject to estimate and judgment, which may vary greatly, depending upon who is responsible for them.

Under such circumstances it is obvious that the amount of assets as footed up in a balance sheet is not altogether the criterion upon which to build one's confidence in the safety of a security. The amount of property that may be shown is a very important factor, not because in and of itself it represents the ultimate security of the bond, but because it shows a basis for earning power, given the right conditions.

The point at issue is, however, whether earning power, in its final analysis, is not the ultimate basis of safety for an issue of bonds. The answer that it is has been given in the field of railroad finance years ago. It has long since been known by intelligent investors that to hope to take over an important piece of railroad property in satisfaction of the mortgage upon which default may have occurred is utterly impracticable. There is a sense of security in knowing that your bond has a first or second mortgage on important railway mileage, but the statement in the mortgage that in case of default the bondholders may enter upon and take possession of the property is well-nigh a legal fiction.

Every intelligent buyer of railroad bonds nowadays knows that the exact designation of his security stands for little else than the relative position it occupies in the general scheme of the line's capitalization, and indicates more the priority of his claim against earnings than the degree to which he may expect to be satisfied by entering upon and possessing the property. In the first place, the increasing unity of the great railroad systems of the country makes it almost impossible for one piece to live without the others. There is a homogeneity in the railroad field that could not be broken by the drastic action of any group of security holders. In the second place, what would a group of bondholders do with a large stretch of railroad mileage considered as so much track and buildings? Every one knows that when a railroad defaults its obligations, there is a readjustment of securities and the property is pushed along with the attempt to make it a rejuvenated and going concern.

So well is this understood that bond dealers generally neglect to make any statement of the property value of a railroad when selling its bonds. The balance sheet of a railroad seldom appears in a bond circular. But the statement of earnings is given great prominence.

On the other hand, the balance sheet is given conspicuous attention in the circular offering an industrial issue if the bond be that of a concern in reasonably good standing. Often when there are no particular reasons for emphasizing the earning power of the concern, the assets are made the chief element of display.

What is the situation with respect to the industrial issue and its dependence upon earnings? If the property cannot show a sufficient margin of safety for the bonds as a going concern, what may the bondholder hope to get if he were to foreclose on the property for its selling value? He might get the entire amount of his debt, provided the bond issue were not too near the total value of the plant. But if the earning power were not

there, the margin between the total amount of bonds and the property upon which they were to be satisfied would have to be wide to insure such a happy outcome.

In other words, the matter is resolved into a question as to what the bond holder would do with the property after he gained possession, if it could not earn enough to maintain the issue of securities. This question has confronted many security holders in the past. When they bought the bonds, there appeared to be a strong, valuable property beneath their loan, upon which they might lean for recovery of their principal in case of default. Business changes and altered industrial conditions, however, dried up the earning power of their company, and they were forced to take a property which, in figures and in the estimate of its management, was amply sufficient to pay off all debts, yet which in the stress of conditions could not be sold for enough to meet all claims on it.

The truth of the statement that the ultimate safety of the bondholder lies in the ability of his corporation to earn interest and other charges, finds its greatest substantiation in the case of industrial bonds. Of the host of miscellaneous corporations that come under this head many could not possibly be sold under the hammer to meet all claims, for the very good reason that when industrial trouble comes in its most serious aspects it strikes not one or two, but many concerns. The very reasons which make a company unable to meet its interest or other obligations make it also a difficult property to sell. The result of default is generally a readjustment of securities, with greater or lesser loss to all security holders, and a continuation of the business so that old holders may get a chance to re-coup in future years what they have had to sacrifice in order to forestall even greater losses.

Making Money in Bonds

By LAWRENCE CHAMBERLAIN

Author of "The Principles of Bond Investment."

IN this brief article I wish not to hold out the allurement of bright speculative prospects to those who would buy bonds for other purposes than to obtain the semi-annual interest, but rather to state baldly the speculative possibilities and their limits and to mention the classes of persons who properly may look for more than the interest return from bond purchases.

In the first place one must remember that one cannot eat one's financial cake and have it. Bonds are the ideal, representative investment, just as stocks are the ideal, representative speculation. An investment implies the ultimate return of the funds and meanwhile a *fixed* income for the use of the money. Therefore, so long as safety is not in question, bond price fluctuation will be occasioned by, and limited to the demand for and supply of investment capital. Investment requires the sacrifice of opportunity for the sake of sureness.

A survey of bond and stock price movements since 1900, when the present regularly recurring cycles began, yields the following percentage figures which are based on 100 as the ten-year average. Each individual figure in turn is the average of a considerable number of listed securities carefully chosen for their statistical fitness:

1900-02.	*Stocks.*	*Fluctuation.*	*Bonds.*	*Fluctuation.*
High	126.24		103.88	
Low	68.20	58.04	97.71	6.17
1903-06				
High	148.47		103.60	
Low	91.69	56.78	97.94	5.76
1906-10				
High	147.53		99.99	
Low	89.25	58.28	91.54	8.45
Average		57.70		6.79

It will be seen that a single stock purchase on each recession and sale on each elevation constitutes a transaction that can yield a maximum of about 75 per cent. on the capital, whereas, similar bond transactions will yield a maximum of only 7 per cent., or one-tenth as much. The obvious inference is that bonds offer small speculative inducement to those who are in a position to "risk" their capital.

In the second place a glance at the high and low prices of these stocks and bonds during the three cycles of the decade will show that there is no appreciable tendency for stocks to decline over the ten-year period but that the tendency of bonds is distinctly downward. Since 1910 the periodicity of the cyclic movement has been retarded by a vacillation in prices that does not permit the citation of a new high or a new low for stocks or bonds, but as a dealer I may say categorically that in view of the relatively tolerable condition of money and business, bond prices are lower now than ever, and the end is not in sight.

The leading forces at work tending to elevate stock prices and depress bond prices over the main trend of a decade and more must be fairly well known to readers of this magazine. They need scant rehearsal here. By whatever name you call them—the increased gold stock, the equilibrating action of interest rates, or what not—they resolve themselves into the fact that the money unit is losing value, and therefore loans, which are money futures, are losing value, whereas things exchangeable for money units, commonly called commodities, and stock, which represents ownership in commodities, are gaining in value, as expressed in money units.

Since bonds, unlike any other merchandise, are self-supporting (i. e., they yield more in interest when carried as stock-in-trade, than the cost of carrying them on loans from the banks) the margin of profit, considering the slow turnover, can be, and is, narrower than in almost any other mechandise offered for sale. The higher the grade of the bonds, and the greater their marketability, the narrower this margin of profit. Therefore on a slowly but surely declining bond market it is extremely difficult to buy *standard* bonds in competition and turn them over with a profit before the profit has melted away in decline.

This is not a mere theory I am propounding, but a fact, repeatedly demonstrated, and of profound and far reaching effect in the evolution of the bond business. To cite a well known and present condition right here at home: What chance has any bond man today of selling to New York State savings banks any New York State municipals bought three or more months ago, except at a loss? Every savings bank treasurer expects him to take a loss. The ink is hardly dry on your check to the city treasurer in payment for an issue before the price you set is knocked from under you by a competitor who either has bought an equally good issue later and lower and can afford to sell cheaper or who owns a State issue and doesn't care to wait longer and is willing to sacrifice.

Where, then, is money to be made in market bonds? By not buying them except for investment, gentle reader. A dollar saved is a dollar earned, it is not?

By the passage of a new law effective July 1, and also, under the old law, by establishment of dividend records a sufficient number of years, many municipal and railroad issues become legal for Massachusetts savings banks on July 1 of this year. For months past enterprising salesmen have been selling these issues at the market, particularly the railroads, such as the Atchisons, for delivery, if legal, on July 1. About this time (June 26) they are covering at a profit.

Needless to say the margin of profit in "specialty" bond issues is sufficiently wide, and the market sufficiently within control, by lack of competition, so that money is to be made in them at all times if one commands a sufficiently good selling force. Therefore the tendency is constantly growing—as they say in politics, the bond houses are being stampeded—to handle higher yield, lower grade issues: the kind that savings banks cannot or ought not to buy. Therefore, also, the rise of preferred stock selling by quondam bond houses.

There is very little valid incentive for bond buying by national banks on a declining market. At least once this year a financial magazine has exposed the costly

fallacy of national bank buying of government bonds to secure circulation. What is made in circulation is more than lost in price fluctuation, for the price of governments inevitably rises at the time it is profitable to take out circulation, and lowers when circulation should be retired. Since, in the nature of the case, national bank buying in other directions should be of securities that are as marketable as they are safe, and since the range of price movement for such securities is accurately represented in the foregoing table, the chances that more than half the time banks can sell for much more than they pay are not good.

But national banks in general naturally will buy bonds only when more profitable commercial demands are slack and they will sell bonds when the money of their depositors is needed for the conduct of business. It therefore results that bond prices vary inversely as the condition of credit throughout the country, which condition is most accurately expressed in the ratio of loans to deposits for all national banks. (The figures for this ratio are obtainable five times a year from the Comptroller of the Currency.) Hence, for the same reasons that it is unprofitable for the banks to buy government bonds against circulation it is unprofitable for them to buy high grade marketable bonds as a substitute for commercial paper—unless the trend of bond prices should be reversed in the future by the breakdown of the tariff wall or by any other cause of sufficient moment to lower the value of things and to increase the value of money, and of bonds.

The private investor has two ordinary means of making more than interest in his bond dealings. He may in time add a real if small increment to his cost basis by buying bonds secured on properties that must develop with the growth of the country. The Dutch, who are perspicacious and patient, have made money this way in rails. American holders of the better traction, light and power loans are realizing the same rewards.

The other, more substantial, and more rapid increment to investment commitments is to be obtained from the purchase of meritorious convertible issues. This statement is merely a reminder. The fact and the principles involved have been covered repeatedly and thoroughly in this magazine. As a current example, the recent issue of St. Paul convertible 4½s is worth careful study.

Apart from the points of relief just noted, the investment picture is painted darkly, reader, for your own good. *Invest* in bonds, but don't speculate or deal in bonds; especially, don't deal in bonds. There is money to be made by not doing it.

The Value of Good Sponsorship

How it Serves the Best Interests of the Bond Investor

EVERY corporation seeking to market an issue of its securities has a keen appreciation of the value of good sponsorship right from the outset. Good sponsorship, it should be remembered, is not necessarily the linking of a big name to the issue. There are a number of very big banking houses that in some instances by sheer power get a syndication and perhaps a distribution of an issue. Bigness and power counts for much, but oftentimes it is quantitative rather than qualitative. There are small houses whose sponsorship is fully as good and the character of whose business is of the highest.

All this, of course, has a special interest for the investor who looks to a house in a number of respects in the placing and distribution of his funds. A score or so of houses that have established enviable reputations, just because of that fact have hardly to go out after business in the matter of new flotations, since

their conspicuousness and standing are factors that actually draw business to them. All of them have always on their desks new propositions seeking banking support.

The first thing that an investor should consider is the character of the investigation and scrutiny that the proposition offered him has been given. In this particular, he may assure himself without hesitation when he looks to a house of established reputation. There should be a large measure of satisfaction for the investor in feeling that the bond or security offered him has been turned over and over for investigation, on this side and that, before it has been brought to him. Of course, the investor generally cannot learn much of the factors that make his security safe or otherwise. He must depend upon the banker. It depends upon the organization and efficiency of the house just to what extent that investigation goes.

Some bad examples have been prominent only recently of issues that to all appearances had the fullest investigation and thorough-going examination before being offered to the public, but which before long developed noticeable organic weakness and in one case at least actually went to pieces. The value of good sponsorship obviously implies examinations that are genuine and thorough, and investigations that investigate. It is understood of course that no investor, however wise and trained, can guard against false figures or misrepresentations. The satisfaction therefore of dealing with those houses on whose word the security buyer can absolutely rely is great.

Good sponsorship, therefore, begins with the soundness of the preliminary work which is the basis of confidence. It is not to be assumed that banking houses, large or small, however good, can round out any considerable period of existence and never make a slight mistake. That in the very nature of things would be next to impossible. The degree of confidence, however, in which the preliminary work of such a house may be held is very high.

What amounts to a corollary to the above fact is that good sponsorship implies only good securities. Now the word good can be variously interpreted. There are doubtless many securities which, according to the standards of some less conservative houses, would be considered good. The question, therefore, hinges to a great extent on the matter of standards. A house that has been in successful business for a considerable number of years has the required experience to discriminate closely. It will often pass by something which might be accepted by another.

For instance, it is the settled policy of some houses never to engage in a construction proposition. They will not hesitate to engage in extending a project that has passed the initial construction stages but will not initiate the work. Yet it may be a proposition of large merit on the face of the engineering and other reports.

The security of good sponsorship, therefore, is that the issue has successfully met the better standards arising from large experience and a reputation for conservatism. Investors may feel that such an issue is good even though it be not one of the savings bank class. There is something of an irreducible minimum of quality that holds in many houses in the selection of issues. Below that they will not go. Above that, of course, are various degrees of quality. But it may be accepted that such a minimum is in accordance with the best judgment of the house.

Another consideration that enters into the matter of good sponsorship is that the house builds for the future. The momentary advantage of selling a few bonds does not blind it to the larger objective of developing a client that not only will stay by for years but is likely to bring others. The house, therefore, offers according to the investor's needs and particular requirements. Many good houses endeavor to establish a confidential relationship between themselves and their clients so that they may offer and suggest investments according to the particular circumstances prevailing. A house that cares only for immediate profit will sell almost everything and anything to anybody. The house of the better type makes some discrimination as to the character of investments it hands to any individual. It is assumed

institutions can take pretty good care of themselves, for in nearly every one there is at least one reasonably well trained mind that can select according to necessity. In the case of individuals it is somewhat different.

To the layman in such matters it may seem that investments are investments and it may not be clearly apparent where the discrimination should be used. But in the house that meets this high standard the various types of funds and individuals are given careful thought. There are so many varied conditions under which people invest that some conscientious wisdom must be shown in meeting the needs of all. The business man of steady and rapid income requires a certain type of security, whereas the school teacher or clergyman, for example, of modest means, needs a somewhat different arrangement of purchases.

Still another element of good sponsorship arises out of the fact that a house of high character and financial standing is enabled to maintain a fair market position for whatever issues it floats. The writer understands very well that a few issues over the past two or three years have declined after being put out by very excellent houses, but has been the result of several unusual factors. In some instances opening quotations may have been too high as compared with the general market level for securities of their character, but it can be said of the issuing houses that they maintained a fair market, especially where the bonds were not placed on the exchange and subject to influences beyond special control. This question of maintaining a market is so wide that it would be impossible to discuss it here in full. It is sufficient to say that the market position of many issues is helped greatly by the fact that their original issue was through the channels of some strong and able house.

A further effect of good sponsorship is to be found in the position that the banking house maintains toward the property which it finances. At the time of financial assistance of course the past performances of the company are examined very carefully. The house that takes a true position toward the investor not only stands sponsor for the issue of securities it sells but asumes a quasi-supervisory function toward the property. That is to say, the future of the company is as much a concern of the house as the past was. The basis of safety for the bonds is earnings and it is to the best interests of the house that it maintain a watchful eye so far as possible on the fortunes of the company. Indeed there are properties that are actually supervised by the banking house through which their securities have been floated. A number of these may be found among street and interurban railways. In these cases the chief operating officer is an appointee of the house and the board is completely controlled. This is in contrast with the idea of selling an issue of securities with little or no interest in the property thereafter. Good sponsorship nowadays implies an intimate touch of house and company for a long time after the financing.

Lastly, such sponsorship comes to the rescue of the bondholder in extreme cases of trouble. Accidents happen in the business world as elsewhere; and in cases where difficulties do arise it is the house of good standing that takes every measure for the protection of its clients or to get them the best possible results under the circumstances. Backed by the bankers it is almost self-evident that a group of bondholders can often do better than would otherwise be possible.

The Bond Buyer's Guide

IN the following table are arranged in order of yield the principal active issues of bonds listed on the New York Stock Exchange, the income being figured at the latest available selling price for lots of 20 bonds or more. They are divided into groups, according to the grade and character of the bonds.

This table will appear monthly, and will prove invaluable to bond buyers, as well as to brokers and to all others who are called upon to select or recommend investments.

(1) High Grade mortgage bonds, many of which are legal investments for New York State Savings Banks.

Description.	Due.		Interest Period.	Price. July 12.	Yield.
Chic., Rock I. & Pac., ref. g. 4s	Ap.,	1934	A.—O.	88½	4.86
B. & O., P. L. E. & W. Va. Sys., ref. 4s	N.,	1941	M.—N.	90	4.63
Texas & Pacific, 1st g. 5s	Je.,	2000	J.—D.	107¾	4.63
Wabash, 1st g. 5s	My.,	1939	M.—N.	107	4.55
Balt. & Ohio Southw. div., 1st g. 3½s	Jl.,	1925	J.—J.	90⅛	4.51
Un. Pac., Ore. Short L., guar. ref. 4s	D.,	1929	J.—D.	94⅛	4.50
Ches. & Ohio, gen. g. 4½s	Mh.,	1992	M.—S.	100⅛	4.49
L. & N. Atl. Knox. & Cin. D. W., 4s	My.,	1955	M.—N.	92⅜	4.40
Wisc. Central, 50-yr. 1st gen. 4s	Jl.,	1949	J.—J.	92⅞	4.39
Evans & T. H., 1st. cons. 6s	Jl.,	1921	J.—J.	112	4.37
Ches. & Ohio., 1st cons. g. 5s	My.,	1939	M.—N.	110	4.37
Atch., Top. & S. Fe, Short Line, 1st 4s g	Jl.,	1958	J.—J.	92¾	4.37
Northern Pac. gen. lien g. 3s	Ja.,	2047	Qu.—F.	69⅛	*4.36
Colorado & Sou., 1st g. 4s	F.,	1929	F.—A.	95¾	4.36
Balt. & Ohio, prior 3½s	Jl.,	1925	J.—J.	91¾	4.34
Sou. Pac. R. R. 1st ref. 4s	Ja.,	1955	J.—J.	94⅝	4.28
Un. Pac. Ore. Ry. & Nav., con. g. 4s	Je.,	1946	J.—D.	95¼	4.27
Atl. Coast Line, 1st g. 4s	Je.,	1952	M.—S.	95	4.26
Mo. Kansas & Texas, 1st g. 4s	Je.,	1990	J.—D.	94⅝	4.24
C. B. & Q., gen. 4s	Mh.,	1958	M.—S.	95¾	4.21
Gt. Northern, 1st & ref. 4¼s. Ser. A	Jl.,	1961	J.—J.	100¾	4.21
So. Pac., Cent. Pac., 1st ref. gu. g. 4s	Ag.,	1949	F.—A.	96	4.21
Illinois Central 1st ref. 4s	N.,	1955	M.—N.	96⅛	4.20
C. B. & Q., Ill. Div., 3½s	Jl.,	1949	J.—J.	87⅝	4.16
Union Pacific, 1st. & ref. 4s	Je.,	2008	M.—S.	96½	4.15
Balt. & Ohio, g. 4s	Jl.,	1948	A.—O.	97⅞	4.11
Reading Co., gen. g. 4s	Ja.,	1997	J.—J.	97¾	4.10
Chic. & N. West., gen. 4s	N.,	1987	M.—N.	98	4.09
Atch. Top. & S. Fe, gen. g. 4s	O.,	1995	A.—O.	97⅞	4.09
Chic. Mil. & St. P., gen. g. 4s, Ser. A	My.,	1989	J.—J.	98	4.09
Norf. & West. Ry., 1st cons. g. 4s	O.,	1996	A.—O.	98⅜	4.07
Louisville & Nashville, uni. g. 4s	Jl.,	1940	J.—J.	98⅞	4.07
Del. & Hudson, 1st & ref. 4s	My.,	1943	M.—N.	99½	4.05
Northern Pac. prior l. g. 4s	Ja.,	1997	Qu.—J.	99¼	4.03
Del. & Hud. Alb. & Sus. conv. 3½s	Ap.,	1946	A.—O.	90¼	4.03
N. Y. Cen. & H. R., g. 3½s	Jl.,	1997	J.—J.	87½	4.02
West Shore, 1st gu. 4s	Ja.,	2361	J.—J.	100	4.00
Union Pacific g. 4s	Jl.,	1947	J.—J.	100⅜	3.98
Can. So., 1st ext. 6s	Ja.,	1913	J.—J.	101	3.96
Lake Shore, g. 3½s	Je.,	1997	J.—D.	89¼	3.94

(2) Collateral trust bonds selling at prices relative to the great value of the underlying collateral.

Chic. R. I. & Pac. R. R. 4s.*..................	N.,	2002	M.—N.	68¼	5.79
Gt. Northern, C. B. & Q. coll. tr. 4s..........	Jl.,	1921	J.—J.	96	4.55
So. Pac. g. 4s. (Cent. Pac. coll.)............	Ag.	1949	J.—D.	90⅛	4.54
N. Y. C. & H. R. R., Lake Shore, coll. g. 3½s.	F.,	1998	F.—A.	81⅛	4.36
Atl. Coast Line, L. & N., coll. g. 4s..........	O.,	1952	M.—N.	94	4.32

(3) Convertible bonds having no mortgage lien whose quotations are governed largely by the price changes of the stock into which they are convertible.

Erie, 50-yr. conv. 4s. Ser. B.................	Ap.,	1953	A.—O.	78¾	5.27
Ches. & Ohio, conv. 4½s....................	F.,	1930	F.—A.	93¾	5.03
Erie, 50-yr. conv. 4s. Ser. A..................	Ap.,	1953	A.—O.	87½	4.69
Del. & Hud., 10-yr. conv. deb. 4s............	Je.,	1916	J.—D.	98⅛	4.52
Sou. Pac., 20-yr. conv. 4s....................	Je.,	1929	M.—S.	94⅞	4.43
N. Y., N. H. & H., conv. deb. 6s............	Ja.,	1948	J.—J.	128½	4.41
Union Pac., 20-yr. conv. 4s.................	Jl.,	1927	J.—J.	101¼	3.89
Atch., Top. & St. Fe, cons. 4s (issue of 1910)	Je.,	1960	J.—D.	103⅝	3.83
Atch., Top. & S. Fe, conv. g. 4s..............	Je.,	1955	J.—D.	108¼	3.62
Atch. Top. & S. Fe, 10-yr. conv. g. 5s.........	Je.,	1917	J.—D.	107⅞	3.28
Norf. & West. Ry., 10-25-yr. conv. 4s........	Je.,	1932	J.—D.	116⅛	2.93

(4) Debenture bonds most all of which are selling on high level because of the good general credit of the respective companies.

Chic., Rock Isl. & Pa., 20-r. deb. 5s........	Jl.,	1932	J.—J.	91	5.75
Chic. Mil. & St. P., 25-yr. deb. 4s..........	Jl.,	1934	J.—J.	90¼	4.72
N. Y. C. & H. R., Lake Shore, deb. g. 4s....	S.,	1928	M.—S.	93¾	4.55
N. Y. C. & H. R., Lake Shore, 25-yr. g. 4s..	My.,	1931	M.—N.	93¼	4.53
N. Y. Cen. & H. R., deb. g. 4s..............	My.,	1934	M.—N.	92⅝	4.53

(5) Semi-investment bonds, many of which are general mortgages, often classified as "business man's" investments. Income yield is reasonably definite index of relative worth.

Col. Midland, 1st g. 4s.....................	Jl.,	1947	J.—J.	48	7.29
St. L. & S. F. R. R., gen. 15-20-yr. 5s........	My.,	1927	M.—N.	87⅛	6.26
Seaboard Air L., adj. 5s....................	O.,	1949	F.—A.	81	6.19
St. L. I. M. & So. uni. & ref. g. 4s..........	Jl.,	1929	J.—J.	78	6.05
Wabash, 1st ref. & ext. g. 4s...............	Jl.,	1956	J.—J.	68½	5.98
Denver & Rio Grande, 1st & ref. 5s........	Ag.,	1955	F.—A.	84¼	5.96
Chic. & Alton Ry., 1st lien 3½s............	Jl.,	1950	J.—J.	63¼	5.90
Mo. Pac. 1st & ref. conv. 5s.................	S.,	1959	M.—S.	85½	5.87
St. Louis S. W., cons. g. 4s................	Je.,	1932	J.—D.	81⅛	5.55
St. L. & S. F., K. C. Ft. S. & M. Ry., ref. g. 4s.	O.,	1936	A.—O.	79½	5.54
St. L. & S. F. R. R., ref. g. 4s..............	Jl.,	1951	J.—J.	78	5.35
Chic. Gt. Western, 1st 4s....................	S.,	1959	M.—S.	77¼	5.32
Southern, devel. & gen. 4s. Ser. A...........	Ap.,	1956	A.—O.	78⅜	5.27
Chic. & E. Ill., ref. & imp. 4s..............	Jl.,	1955	J.—J.	80⅛	5.15
Denver & Rio Gr. 1st cons. g. 4s...........	Ja.,	1936	J.—J.	84⅞	5.10
Erie, 1st cons. gen. lien g. 4s................	Ja.,	1996	J.—J.	78⅞	5.09
Kansas City So., ref. & imp. 5s.............	Ap.,	1950	J.—J.	98¾	5.07
Seaboard Air L., ref. 4s....................	O.,	1959	A.—O.	81½	5.03
Wabash, 2d g. 5s..........................	F.,	1939	F.—A.	100½	4.97
Western Maryland, 1st g. 4s...............	O.,	1952	A.—O.	86⅞	4.74
Mo. Pac., St. L., Ir. M. & S., gen. con. g. 5s..	Ap.,	1931	A.—O.	104	4.68
Southern, 1st cons. g. 5s....................	Jl.,	1994	J.—J.	107½	4.64
N. Y. Westches. & B. 1st. ser. I 4½s........	Jl.,	1946	J.—J.	100	4.50

*Calculations on 100 years only.

Bond Market Topics

MIDSUMMER dullness has fallen over the bond market in the most thorough fashion. The bond salesmen and traders can move hardly anything worthy the name of business. Nobody is buying, and practically nobody is inquiring. There is nothing extraordinary or very unusual about this situation except for the fact that it may possibly present a condition of exhaustion so far as bonds are concerned rather than a condition of suspension. Summer quiet is usually suspension, but the heavy activity in new financing and distribution early in the year in the minds of good critics seem to have laid the foundation for a very dull summer, with the possible continuation of dullness for some time later than usual in the fall.

The dearth of news in the bond market has made writers on the investment market hard put. Of course over the past six weeks there have been some large offerings, such as the Virginian Railway bonds and the International Agricultural Corporation issue, but these public offerings have been merely matters of record; some of the bonds have been in the market for months, with syndicates working diligently long before the advertisements appeared. With a scarcity of news of the usual character some of the older issues, such as Southern Railway 4s, Chicago Great Western 5s, Norfolk & Western Convertibles, International Mercantile Marine 6s and others have had an airing. The market position of each has been discussed as a filling of the interim between real news outcroppings.

Some of the bond houses over the past few months have had to face the work of keeping large blocks of some of their issues out in the market. Every house has to take back some bonds a short time after syndicating inasmuch as there are always a few people who buy speculatively only and sell on small advances. But the problem of avoiding large returning blocks has kept some of the trading people in the houses very busy over the past year.

The so-called reinvestment demand usually expected after the mid-year disbursements has become a tradition. Until recently the houses made some definite preparations for the large flood of money that is released at this time, but it is hard to find more than traces of such a demand nowadays. If this year is to serve as a criterion many investors anticipate their disbursements a long time ahead or else are holding their money for some possible better opportunities.

New Bond Literature.

Service to Bondbuyers. A booklet issued by N. W. Halsey & Co., New York, indicating the obligations assumed by the investment banker in the mutual interest of the investor and himself.

Statistics in the form of a forty-page booklet on many listed and unlisted securities, issued by Turner, Tucker & Co., New York.

Resumé of the financial and commercial situation, in the form of a circular by Spencer Trask & Co., New York.

Hints to Investors.

Don't be lured by too great profits. Remember that conservatism pays best in the long run.

Don't take a trading position in securities that you cannot help but know have a narrow market.

Give preference to the securities of companies that make full reports of their affairs.

Remember that a good sinking fund provision should be about every security where the assets of the business are being consumed by its operations.

Investment Bankers' Association

A MEETING has been called at the Waldorf-Astoria, New York, for August 8 at 2 p. m. for the permanent organization of The Investment Bankers' Association of America. This is to be strictly an investment bankers' association, confining itself to the discussion of such topics as pertain to the investment banking business, and of carrying on a great deal of work through various committees that will directly affect the laws of the various States bearing upon the creation of new securities as well as the business of distributing bonds, etc.

The investment banking business, as conducted today, carries with it a great deal more responsibility and dignity than the average investor, or even the commercial banker, is willing to concede, and the association to be formed will, it is hoped, help to remove uncertainty regarding the character of the men engaged in this business as well as of the character of the securities that will be from time to time approved.

INVESTMENT DEPARTMENT

Investing for Profit

A Review of General Principles and Practical Methods

By G. C. Selden

[This series of articles is intended to lay before the reader, in a brief but fairly comprehensive form, the outlines of the basic principles which must underlie all efforts to invest for profit, as distinguished from pure speculation on the one hand, and on the other hand from investment for income only. This branch of investment has been but little discussed, as most writers have turned their attention either to the field of investment for income only, or to the study of the merits of individual securities.]

I—Some Underlying Principles

INVESTMENT is defined as "the placing of capital in a more or less permanent way, mainly for the income to be derived therefrom."

In the very nature of the case the definition of investment cannot be rigid and clear-cut, because the idea itself is not rigid or clear-cut. Like nearly all the terms used in finance or in the marketplace, the word is used in a variety of ways and has several gradations of meaning:

(1) The placing of capital for income only, the risk of loss being so slight as to be considered negligible. The income from such an investment is necessarily small, because the element of risk is almost eliminated.

(2) The placing of capital for income only, but in a security which contains a slight possibility of loss—or a "business man's risk," as it is commonly called. In this case, the investor depends to a certain degree upon his knowledge of financial or business conditions in forming his opinion as to the safety of his investment. He therefore obtains a somewhat higher rate of interest, the additional per cent. being in payment for additional risk or for the degree of judgment which he has exercised in making the purchase.

(3) The placing of capital for income, but also with the expectation of an increase in the value of the principal—in other words, investment for profits as well as for interest.

Whether investment for profit should be called a science or an art is a mere quibble over words. Investment for income is commonly called a science, and scientific principles may certainly be applied to investment for profits, but in its main features it might perhaps better be called an art.

It is doubtful if the intelligent investor for profit, who works on sound principles and with deliberate judgment, takes any greater risk than the investor described under (2) above, who accepts the business man's risk.

For example, in 1902 Minneapolis & St. Louis 1st & Refunding 4's of 1949, selling at 106, were considered at least a business man's risk, if not better, yet they dropped to 61 in 1912; while American Beet Sugar preferred, paying 6 per cent. and selling around 80 in 1902, would have been ranked somewhere between a business man's risk and a speculation, yet in 1912 it was selling at par, after having yielded 7½ per cent.

interest during the entire 10 years on an investment made at 80.

It is intelligence that commands the large income returns, whether in the investment business or any other business.

This example also illustrates another important fact, namely, that the careful investor for profit often gets, in addition to his profits, a larger income return than the investor for income only. This is because the securities which are most likely to increase in value are generally those of growing companies and have not yet become "seasoned." For this reason such securities sell at a low price compared with their interest return.

The investor for profit does not primarily aim at a high interest yield. He tries to get merely an ordinary income return, coupled with an increase in value. But he is likely to find himself, without any special intention, receiving a relatively high rate of interest in addition.

The distinction between investing for income and investing for profit is not so great as might at first appear. The first consideration in an investment for income is usually said to be safety. This means, of course, safety against the loss of any part of the principal. But this includes a consideration of future prices, just as truly as though the investment had been made with the expectation of an increase in value.

The investor for profits tries to select a security that will grow, while the investor for income tries to select one that will not shrink.

The difference is in degree rather than in kind. The element of risk can never be entirely eliminated. Even if we were to assume that the U. S. Government is indestructible, so that the holder of a Government bond is certain to receive the full par value of the bond at maturity, there is still to be considered the risk involved in the changing value of money. A rise in the cost of living means a fall in the value of money, and consequently a shrinkage in the real value of the bond, which can only be truly measured by what the bond will buy.

This view of the matter has been forced home upon investors within the past few years by the rapid rise in all prices. Investors have supposed that they were taking little or no risk because for every $1,000 invested they were sure to get back $1,000 at maturity of the obligation. They have awaked to discover that the $1,000 at maturity would buy only two-thirds or three-fourths as much of any useful or desirable article as when the investment was made.

Safety, then, can never be absolute; it is a question of degree. The investor for profit seeks a growing margin above the line of safety which will yield him additional capital. The investor for income only must likewise study to avoid any shrinkage below the line of safety which will encroach upon his principal.

There are many who look upon the art of investing for profit as a mysterious and difficult "knack." They say of an unusually successful man, "He is a natural money-maker," or "Everything he touches turns to money."

Perhaps one-tenth of the returns obtained by a successful investor for profit should be charged to natural bent or talent for money-making; but the other nine-tenths would certainly be found to be due to his first learning the business, then making a careful and painstaking investigation of every proposition before putting capital into it, studying all the conditions surrounding the business of the company, comparing prices with conditions, and in general applying to the investment the same degree of thought, caution and mature consideration that he would apply to the active management of any business enterprise in which he was engaged.

How many losing investors can truthfully say that they have done all this? In ninety-nine cases out of one hundred they invested "on the recommendation of a friend," or on the strength of alluring advertising matter, or because of some half-considered notion, never carefully investigated, or for some other equally inadequate reason.

Only three qualifications are necessary in order to learn the art of investing for profit:

(1) Ordinary common sense.

(2) Willingness to make industrious and constant use of your powers of observation, reasoning and inquiry.

(3) Patience to go slowly until actual experience has confirmed the soundness

of your judgment and of your methods.

These three requirements are not easy, but they are not dependent upon any special talent and they are within the reach of most persons who are willing to make an effort proportionate to the results they hope to achieve.

As to the opportunities for this kind of investment, they are almost innumerable. The inexperienced investor is likely to argue with himself somewhat as follows:

"Look at the millions of dollars owned by great capitalists or piled up in banks awaiting good opportunities for investment. A large part of this money belongs to men who are themselves directors in the big corporations, or to bankers who know every development in all the money markets of the world. What chance have I in comparison with these men? They are bound to skim the cream from every proposition before they let us little fellows in. They simply use us to unload on when they want to stand from under."

Now there is a point of view from which this is at least partly true. The great banking and corporation interests certainly have better opportunities for knowing future developments than the average small investor and they will usually be able to get more profitable results.

But the special advantages of the large investor as compared with the small are very much over-estimated. The most essential facts in regard to the money market and the condition of important corporations are public property. Certain companies pursue a policy of secrecy, and these the outside investor must leave severely alone; but so far as the big railroads and many of the important industrials of this country are concerned, the main facts about their condition, earnings and prospects are spread broadcast. An officer or director may have more exact knowledge than the public as to the date on which a dividend will be raised or lowered, but the public may, if it wishes, know very nearly as much as he about the earnings which underlie the dividend—and that, after all, is the important thing.

Moreover, the fact that leading banking interests can make their money earn a larger return than you can get on yours, does not prevent you from making a moderate profit. They are a long way from usurping the entire field. There is still plenty of room left for you.

Facts are the best answer to this argument of the pessimist. For example, in 1903 United States Steel preferred sold at 49¾. It was then paying and has continuously paid ever since 7 per cent. on par or over 14 per cent. on a price of 49¾. In 1909 it sold at 131.

If inside interests knew all the facts and had abundant capital, why didn't they buy *all* the Steel preferred that was offered between 50 and 60? Why was the small investor given the opportunity to pick up this bonanza at 50? Similar examples might be taken from the history of any well-known stock or bond.

Whatever advantages inside interests may have compared with the ordinary investor, there are plenty of opportunities left over for him.

While there are many different kinds of securities, which vary in innumerable details in regard to legal rights of the holder and the exact character of the obligation, all may be included under three general heads:

(1) *Promises to pay*, such as bonds, mortgages, notes, or loans on collateral. All of this class of securities entitle the holder to a specified amount of cash at a certain fixed future date, with interest at a predetermined rate, payable at regular intervals throughout the term of the security.

(2) *Equities*, representing a fractional part of the ownership of the company. The English term for these, *shares*, expresses their standing accurately. In America such securities are commonly called stocks.

(3) *Convertible securities*, which may be changed from one of the above forms to the other under certain conditions which are specified in the face of the security.

It is to be noticed that the character of a security is not always fairly indicated by its name. Income bonds, for example, are entitled to interest only when earned. If the income of the company is sufficient to pay the interest on such bonds, it is paid; but if the interest cannot be paid, this does not necessarily

throw the company into the hands of a receiver, as would be the case if the interest on any other bonds were defaulted.

Likewise the debenture bond is practically nothing but a note, as it carries no lien on any specified property of the company, but is merely a general obligation. When such a bond runs for a short term only, it is called a note in the ordinary parlance of the Street.

In the case of a guaranteed stock, it is necessary to ascertain just what the guarantee covers; but in most cases such a stock is equivalent in safety to a debenture bond except that it has no date of maturity.

Equipment bonds deserve special notice, because they are really stronger than their name indicates. The security behind them consists of specified railroad equipment, as locomotives, cars, etc. The company might go into the hands of a receiver without affecting the security of these bonds, as that depends solely upon the equipment. A certain fraction of such an issue of bonds is retired each year, while the railroad usually obligates itself to keep the equipment in good repair and to replace such as may be worn out or damaged within the term of the bonds. Hence the amount of bonds outstanding keeps decreasing in proportion to the security behind them.

Since the investor for profit desires to select securities that will increase in value, he will be chiefly interested in stocks and in bonds or notes which are selling below par. It is rare that he will wish to purchase bonds above par, because the possibilities of higher prices for such securities are very limited.

Equipments or any kind of serial bonds selling below par are especially attractive because the bonds to be retired each year are usually drawn by lot, so that each holder has a chance of getting par for his bonds whenever any are retired.

The investor for profit must select securities which have a ready market. When he sees a good profit in his investment, he wishes to be able to take it without sacrificing two or three points because of difficulty of finding a buyer at the moment.

[*To be continued.*]

Building Your Future Income

IV—Securities Not Suited to Our Purpose

By RICHARD D. WYCKOFF

AND now let us look at the negative side of this proposition. There are a number of stocks which afford desirable mediums for the investor who cares more about future income than present profits or interest return, but unless we can form a reasonably certain opinion of a company's probable position five or ten years from now, we may as well rule its securities out of our list.

To begin with, any corporation whose finances are not in a sufficiently strong state to withstand any extraordinary amount of adversity, does not come within the class of desirables.

I should decide against a high priced security showing an abnormal return on its market price, without full investigation of the facts, as this usually indicates weakness somewhere.

On this ground also I should avoid mining stocks. Remember, we are selecting issues which will yield a large return some years hence. Mining properties are either mere prospects, undeveloped mines, or paying properties. The prospect certainly does not come within our requirements. The undeveloped property is likely to be developed and see its best days within the next ten years, while the producers are naturally exhausting their ore, and ten or fifteen years hence, assuming

that no new ore bodies are acquired, will have less value in the ground than they now have.

Stocks of companies which have large assets concealed or in their treasuries are also undesirable for this purpose, as these assets are likely to be distributed, reducing intrinsic values. Lehigh Valley is a case in point: This company recently distributed the stock of its Coal Sales Co., the rights being worth at the time to a holder of Lehigh Valley R. R. stock about 19 points. The Coal Sales stock (par $50) which first appeared at about 200 ($100 per share), has advanced to around 250. While there may be other melons of this sort to come from Lehigh Valley, this one at least cannot be cut again.

Stocks of gas companies may run up against legislative action, which will so reduce the price paid by consumers that serious inroads will be made into net earnings.

There are certain issues known as melon-cutters; that is, stocks which either have large surpluses or whose earnings are running up at such a rapid rate that large accumulations will probably exist within a few years. The danger in such issues is likely to come from overdoing this melon-cutting business. Extra cash dividends are legitimate enough as all such surplus profits belong to the stockholders, but when a company issues new stock to offset the amount of surplus which has rolled up, there is a chance that in time this large capitalization will result in lower earnings per share.

In the case of the Chicago & Northwestern Railway stock, this is now becoming apparent. In 1906, Northwest earned over 19 per cent. on its common stock. At that time it took $4,692,000 to pay the 7 per cent. dividend. In the 1911 fiscal year, because of watered stock, it required over $9,000,000 to pay the dividend, and earnings equaled only a little over 8 per cent. This, we should say, is the result of too much capitalization of earning power and a consequent reduction of earning power per share.

In the case of a high-priced issue like American Tobacco, no one can tell what the next five or ten years will bring forth. Genuine competition may spring up from various sources, and even though the former tobacco trust is split up into pseudo-competitors, which may be more or less depended upon not to injure each other's interest, their future is distinctly a problem.

Even so thoroughly intrenched an industrial as American Sugar might meet with new competition, more aggressive or enterprising selling methods, and be unable to cope with the opposition. A stock like American Beet Sugar could easily meet a serious obstacle in the form of tariff reduction.

Stocks are always somewhere in their big swing. The object in selecting issues for the purpose in question is to find something which in every probability is now near its low point, and will eventually run to a very much higher level, and show large earnings in proportion to purchase price.

After using the utmost discrimination in selecting securities for this purpose, it does not always follow that now is the time to buy. The investor who is buying *for future income* need be in no hurry to place his money; he need not concern himself as to whether stocks are going up or down; he should realize that some time within the next few years there will doubtless be an opportunity to secure certain stocks on a bargain basis. We take no stock in predictions that a panic will occur in this or that year. No one can tell this accurately.

Knowing when to buy is a science in itself, but one's judgment can be cultivated by a study of all the important contributions to financial literature. The matter should be handled somewhat similar to a deal in real estate in which the investor takes plenty of time to make his selection, and to consider the probable trend of the real estate market, carefully searching the title, and providing against all contingencies. He does not look for immediate return so much as future growth and an income, and he considers each property on its own merits, but with due regard to the whole situation and to what he is trying to work out.

THE BARGAIN INDICATOR

Comparative Earnings of Important Stocks

NOTE—The minus sign (—) before figures below indicates a DEFICIT for the year equal to the per cent. on stock given. Additions and betterments are included in earnings given, wherever distinguishable from ordinary expenses of maintenance, since earnings invested in improvement of the property increase the equity of the stockholders and therefore render the stock more valuable. The value of a stock cannot be judged by its position in the table only. Earnings for successive years as given should be carefully examined, with a view to stability and growth as well as amount. Latest earnings will be found in table of "Monthly Net Earnings" or "Investment Digest."

Railroads	Present div. rate.	Earnings on par for fiscal year ending on any date during 1906.	1907.	1908.	1909.	1910.	1911.	Present price.	Earnings last fisc. yr. on pres. pc.	Notes.
Seaboard Air Line pfd....	0	....	....	....	....	....	7.6	52	14.6	Reorganization completed 1910.
Hocking Valley com.......	8	9.9	11.2	6.0	8.3	18.2	18.5	135	13.7	Very inactive. Controlled by Ches. & O.
Denver & Rio Grande pfd.	0	8.1	9.1	7.7	6.6	8.3	4.7	36	13.1	Contr. and finances W. Pac., wh. doesn't earn fxd. chgs.
Colorado & Southern com.	2	3.5	4.5	4.8	4.9	7.3	5.2	40	13.0	Controlled by C., B. & Q. (Hill management).
Kansas City Southern com	0	0.3	5.4	2.6	3.4	2.2	2.7	25	10.8	
Southern Railway com....	0	1.9	—0.6	—2.2	0.5	2.3	3.1	29	10.7	
Twin City Rapid Tran. com	6	8.1	8.2	8.3	9.9	10.9	11.0	108	10.2	
Union Pacific com.........	10	14.2	16.5	16.2	19.1	19.2	16.6	168	9.9	Holds $307,106,000 secur. of other cos.
Lehigh Valley com.........	10	18.2	20.0	19.2	15.4	23.0	16.5	167	9.9	Jan., 1912, ex. div. 10% and rights eq. abt. 8%.
Atlantic Coast Line........	7	10.8	6.3	5.6	9.4	12.0	12.8	140	9.1	Holds control of Louisville & N. by stock ownership.
Louisville & Nashville....	7	10.6	10.7	7.5	14.3	17.3	14.2	161	8.8	Controlled by Atl. Coast Line.
Southern Pacific com......	6	8.1	12.5	7.4	10.2	13,0	9.6	110	8.7	
Atchison com..............	6	11.8	15.0	7.7	12.1	8.9	9.3	108	8.6	
Reading com...............	6	13.9	13.0	12.7	13.2	16.1	13.8	165	8.4	Suit pending in Supreme Court.
Illinois Central	7	....	....	8.4	7.4	7.1	10.3	130	7.9	Div. probably not earned this yr.
Rock Island Co. pfd.......	0	....	....	....	....	1.6	3.8	49	7.8	R. I. Co. owns 94% of stock of R. I. Lines.
Norfolk & Western com....	6	9.7	9.0	7.1	8.7	11.6	9.0	117	7.7	Controlled by Penna.
Brooklyn Rapid Transit...	5	4.8	4.4	4.1	4.2	5.6	6.8	92	7.4	Subways will doubtless enlarge earnings eventually.
Erie com..................	0	2.2	3.0	—3.7	0.3	2.9	2.5	34	7.4	Actual earns. before approp. eq. 3½%.
Delaware & Hudson........	9	12.6	15.2	12.4	12.2	12.5	12.3	167	7.4	
Mo., Kansas & Texas com.	0	1.8	5.0	0.4	0.7	0.8	2.0	27	7.4	
Pennsylvania Lines.........	6	11.7	10.7	9.0	11.0	9.3	8.6	123	7.0	Has paid divs. since 1856.
Chic., Mil. & St. Paul com.	5	12.3	10.5	9.5	7.2	8.0	7.1	103	6.9	Divs. will be paid only if earned.
Buffalo, Roch. & Pittsb. com	5	8.6	8.7	6.2	6.3	7.3	8.0	118	6.8	Pfd. and com. share equally above 6%.
Northern Pacific com......	7	14.5	15.1	12.8	10.7	9.0	8.2	122	6.7	Large equities in lands and C., B. & Q.
Canadian Pacific	10¼	14.1	13.7	10.6	8.6	16.0	17.3	266	6.5	Div., 1911, 7% R. R., 3¼% land sales, rights eq. abt. 8%.
Pittsb., C., C. & St. L. com	5	8.6	8.8	7.2	9.8	6.1	7.0	107	6.5	Pfd. and com. share above 5%. Controlled by Penna. Co.
Chesapeake & Ohio........	5	7.3	5.4	4.4	6.4	10.0	5.1	81	6.3	1911 earns. reduced by Chicago exten.
Baltimore & Ohio..........	6	12.6	9.9	5.1	7.1	8.9	6.9	109	6.3	Owns 1/7th of Rdg. com. outstanding.
N. Y., Ontario & Western.	0	2.0	2.8	2.6	2.3	2.3	2.0	33	6.1	
Great Northern pfd........	7	13.0	11.8	7.1	8.3	8.5	8.3	138	6.0	Has large equity in C., B. & Q. and Canadian extensions.
Del., Lack. & Western....	20	22.2	38.5	40.8	52.8	35.4	31.8	531	6.0	"Other inc." reduced acct. segregation Coal Co.
Chicago & Northwest'n com	7	14.8	12.7	11.2	11.4	7.7	8.0	136	5.9	179 miles new road just completed.
Chicago Gt. Western pfd..	0	....	....	....	....	1.2	1.9	34	5.6	
N. Y., N. H. & Hartford..	8	12.2	9.2	5.4	7.4	10.3	7.1	135	5.3	Div. reduction under discussion.
Clev., C., C. & St. L. com.	0	4.1	3.1	0.4	4.8	2.1	2.8	55	5.1	
N. Y. Central.............	5	4.6	6.2	5.1	7.7	6.4	5.7	115	5.0	Controls 1/7th Rdg. through Lake Shore.
St. Louis S. W. com.......	0	—2.7	3.7	—4.2	—2.5	—1.1	1.4	32	4.4	Full div. of 5% on pfd. probable soon.
Minneapolis & St. L. pfd..	0	10.4	7.8	2.7	—2.4	1.9	1.9	44	4.3	
Minn., St. P. & S. S. M. com	7	11.7	9.6	8.4	8.8	15.7	5.3	148	3.6	Pfd. and com. share above 7%. Contr. by Can. Pac.
Chicago & Alton pfd......	0	4.9	9.0	6.5	8.2	5.4	0.6	38	1.6	Contr. by Tol., St. L. & W.—V. P. owns $10,343,000 pfd.
Western Maryland com...	0	....	....	....	....	0.9	0.4	57	0.7	Connection with N. Y. Cent. completed. Will help earnings.
Wabash pfd...............	0	—5.4	0.9	0.3	—0.5	1.3	—1.2	14	0	Now undergoing reorganization.
Lake Erie & Western pfd.	0	3.1	2.0	—2.0	0.8	—0.2	—0.1	38	0	Controlled by Lake Shore.
Missouri Pacific	0	8.1	9.9	3.7	1.3	3.3	—6.3	36	0	Deficit chiefly due to adjustments old claims.
Toledo, St. L. & W. pfd...	0	4.7	6.4	0.2	1.0	2.0	—0.6	29	0	Earnings given exclude divs. on holdings of Alton stock.
Wisconsin Central com....	0	1.7	3.2	—0.6	0	2.5	—4.3	53	0	Leased to M., St. P. & S. S. M. (Can. Pac. system).

Leased to M., St. P. & S. S. M. (Can. Pac. system).

Preferred stocks earning more than the per cent. to which the dividend is limited, but now receiving either no dividend or less than said limit:

Erie 2d pfd.	0	10.4	24.9	—22.1	6.4	24.3	21.7	43	50.5	Entitled to 4% before com. divs.
St. L. & San Fran. 2d pfd.	0	13.2	24.7	1.6	8.2	5.8	8.3	37	22.4	Entitled to 4% before com. divs.
Erie 1st pfd.	0	10.4	12.3	—3.4	6.1	12.1	11.2	52	21.5	Entitled to 4%.
Southern Railway pfd.	4	8.7	3.8	0.7	6.0	9.6	11.1	77	14.4	Entitled to 5%.
St. Louis S. W. pfd.	4	2.8	7.9	1.6	2.9	4.1	6.1	73	8.4	Full rate of 5% probable soon.

Industrials

	Present div. rate.	Earnings on par for fiscal year ending on any date during 1906.	1907.	1908.	1909.	1910.	1911.	1912.	Present price.	Earnings last fisc. yr. on pres. pc.	Notes.
Bethlehem Steel pfd.	0	5.1	10.8	2.4	5.3	13.4	13.6	....	69	19.7	Has about completed large additions.
Am. Beet Sugar com.	5	2.1	1.0	4.2	7.0	7.3	10.9	13.5	74	18.2	
Am. Locomotive com.	0	17.7	18.1	11.1	—3.1	1.3	7.3	....	42	17.4	Also mfrs. autos.
Inter. Harvester com.	5	5.1	6.5	7.8	17.8	14.8	20.0	....	119	16.8	Govt. suit pending. 40% of business now foreign.
Am. Agri. Chem. com.	4	4.1	6.2	6.1	7.5	10.4	9.1	....	61	14.9	
Am. Malt Corp. pfd.	4	2.8	—4.0	10.6	6.2	3.0	8.8	....	60	14.7	
U. S. Rubber com.	4	4.1	4.4	0.2	4.0	7.8	2.2	6.3	51	12.4	Recently placed on div. basis.
Nat. Enam. & Stamp com.	0	1.7	6.7	—2.1	1.1	1.7	1.8	....	16	11.3	Pfd. in arrears amt. eq. to 4% on com. for 1 yr.
Colo. Fuel & Iron com.	0	1.7	0.9	0.4	2.1	4.0	3.2	....	30	10.7	
Distillers' Securities	2	6.4	7.8	1.5	2.2	2.3	3.1	....	32	9.7	Holds maj. U. S. Ind. Alcohol.
U. S. Realty & Imp.	5	4.8	6.0	7.7	9.2	9.7	9.4	8.3	86	9.7	Controls Geo. A. Fuller Construction Co.
Republic Iron & Steel com.	0	3.8	8.5	2.0	0.7	4.6	2.5	....	26	9.6	Div. on pfd. passed last meet.
General Chemical com.	6	7.3	5.7	4.5	14.4	15.6	15.5	....	166	9.3	5% stock div. 1912.
Inter. Paper pfd.	2	8.9	7.2	7.3	2.7	4.5	5.3	....	59	9.0	Earn. last 6 mo. 1911, 4.6%. 6% cum. div. in arrears.
Sears, Roebuck com.	7	6.6	8.5	4.5	18.4	20.5	17.0	....	190	8.9	In 1911 p'd a 33⅓% stock div.
Union Bag & Paper pfd.	4	7.3	7.0	7.4	6.2	5.4	5.5	5.3	60	8.8	In arrears on 7% cum. div.
U. S. Steel com.	5	14.4	15.7	4.0	10.5	12.3	5.9	....	70	8.4	U. S. Govt. suit pending.
Corn Products pfd.	5	....	7.2	8.5	8.2	6.9	7.0	6.9	83	8.3	Div. cumulative and in arrears.
Westinghouse Electric com	1	....	....	....	....	7.6	12.3	6.2	77	8.1	Div. 1% decl. April 30, 1912. Rate not fixed.
American Woolen com.	0	3.5	—3.3	—3.9	5.2	2.2	2.1	....	27	7.8	Subject to tariff adjustments.
General Electric	8	11.7	11.6	10.2	7.4	16.7	13.7	....	179	7.7	
People's Gas Light & Coke	7	6.9	7.6	8.4	8.9	9.0	8.9	....	116	7.7	Recently won suit against 80c. gas.
Pacific Coast com.	6	10.1	10.3	5.7	5.3	8.8	7.2	....	95	7.6	Com. and 2d pfd. share equally above 4%.
Am. Smelt. & Refin. com.	4	10.6	12.8	7.0	7.7	7.1	6.3	....	83	7.6	1911, 10.9% includ. equity in Smelt. Sec. Co. earn'gs.
Inter. Steam Pump com.	0	....	3.7	2.0	1.4	2.8	2.1	....	28	7.5	
North American	5	3.2	4.7	4.8	6.0	6.2	6.2	....	83	7.5	Controls St. Ry. and Elec. Light Cos.
American Linseed pfd.	0	....	....	....	5.8	4.5	2.6	....	35	7.4	
Am. Sugar Refin. com.	7	....	12.4	7.5	3.9	3.8	9.1	....	128	7.1	1911 earns. exclude $3,450,627 chgd. "improvements."
U. S. Cast Iron Pipe pfd.	0	14.0	14.7	5.4	1.2	4.4	3.9	4.2	59	7.1	Controls 75% of U. S. production.
National Biscuit com.	7	7.1	7.6	8.1	7.4	7.7	9.8	10.0	147	6.8	Paid 2% extra last fisc. yr. Operates 45 plants.
Western Union	3	5.9	5.0	1.7	5.8	5.7	5.4	....	83	6.5	Controlled by Am. Tel. & Tel.
Utah Copper (par $10)	30	....	5.9	23.3	29.5	34.6	39.7	....	$61	6.5	
Va.-Carolina Chem. com.	3	4.8	5.9	3.7	7.1	10.4	3.1	....	49	6.3	Owns Southern Cotton Oil Co.
National Lead com.	3	5.3	6.0	5.8	6.2	4.3	3.6	....	59	6.1	
American Can pfd.	5	5.1	6.4	6.6	6.7	6.8	7.1	....	117	6.1	Divs. in arrears. Chgd. deprec'n, 1911, $2,500,000.
American Tel. & Tel.	8	8.2	9.0	10.1	9.0	10.0	8.5	....	145	5.9	Large equities in sub. co. earnings.
Pullman	8	14.7	11.6	9.8	10.9	11.6	9.3	....	162	5.7	
Pittsburgh Coal pfd.	5	8.1	10.0	1.7	3.0	7.2	5.1	....	92	5.5	Divs. in arrears.
Consolidated Gas (N. Y.)	6	....	3.9	4.9	6.7	7.4	7.6	....	146	5.2	
Amalgamated Copper	4	5.9	9.2	4.3	2.4	3.9	3.9	4.3	82	5.2	Controls Anaconda and other Butte and Mex. mines.
Tennessee Copper (par $25)	6	16.5	16.0	6.5	6.8	8.9	8.1	....	$43	4.7	Income chiefly from sulphuric acid.
Am. Car & Foundry com.	2	4.5	20.1	23.8	2.6	6.6	7.1	2.5	58	4.3	$600,000 set aside for com. divs.
Am. Hide & Leather pfd.	0	1.9	2.2	—0.1	11.2	—5.6	0.5	....	25	2.0	
Railway Steel Spring com	0	8.7	8.6	—1.3	5.3	6.0	0.3	....	34	0.9	
N. Y. Air Brake	0	....	....	2.4	2.7	4.5	0.5	....	71	0.7	Div. passed Oct., 1911.
Pressed Steel Car com.	0	17.2	13.3	—5.8	7.7	5.5	0.1	....	36	0.3	
Central Leather com.	0	0.4	0.4	1.3	6.3	—2.1	—5.1	....	27	0	
Pacific Mail	0	1.4	0.7	—2.1	—1.7	—1.1	—1.0	—0.1	32	0	Contr. by So. Pac. Panama Canal should inc. earn.
Am. Steel Foundries	0	5.9	14.0	0.3	0.1	6.1	—1.5	....	35	0	1911 earnings are 17 mos. Fisc. yr. changed.
Sloss-Sheffield com.	0	5.3	9.9	4.9	6.6	2.0	—0.6	....	55	0	
Am. Cotton Oil com.	0	3.8	8.7	3.2	10.4	6.8	—1.2	....	53	0	

Monthly Net Earnings

[This table gives the returns of the principal railroads down to latest dates available, and should be studied in connection with the "Bargain Indicator," which shows annual results.]

		Current month.	Change from last yr.	Fiscal yr. to date.	Change from last fisc. yr.	Stock Outstanding (in millions). Pref.	Com.
Atch., Top. & S. F.	May	$3,430,343	+$660,910	$33,342,277*	—$538,872	114	170
Atlantic Coast Line	May	717,545	—38,631	9,115,691*	—296,392	...	57
Balt. & Ohio	May	2,723,361	+175,549	25,410,269*	+2,293,062	59	152
Boston & Maine	May	1,223,005	+328,780	9,931,010*	+699,749	3	39
Buff., Rochester & Pitts.	May	278,591	+141,610	2,712,590*	+107,057	6	10
Can. Pacific	May	3,680,515	+736,430	39,451,640*	+5,776,480	61	180
Central of Ga.	May	210,737	+34,481	3,783,997*	+112,011	None	5
Central R. R. of N. J.	May	373,440	—773,753	11,046,156*	—439,610	None	27
Ches. & Ohio	May	863,720	+48,812	10,513,086*	+572,121	...	62
Chic. & Alton	May	249,770	—124,052	2,905,884*	—476,844	19	19
Chic., Burl. & Quincy	May	1,390,548	—388,044	25,856,405*	—1,167,851	None	110
Chic. Gt. Western	May	156,659	—82,776	2,547,380*	—392,016	40	45
Chic., Mil. & St. Paul	May	850,848	—765,145	13,899,662*	—2,107,014	116	116
Chic. & Northwestern	May	1,748,543	+322,998	18,138,598*	—1,110,476	22	130
Cleve., Cin., Chic. & St. L.	May	462,845	—73,140	2,329,726†	+52,489	10	47
Colorado & Southern	May	270,406	—112,038	4,130,717*	—974,090	1st, 8; 2d, 8	31
Delaware & Hudson	May	377,620	—352,178	2,229,483†	—812,520	None	42
Del., Lack. & Western	May	452,759	—702,229	11,201,498*	—1,901,434	None	30
Denver & Rio Grande	May	407,282	—145,873	4,892,041*	—1,105,621	49	38
Erie	May	892,155	—652,375	12,483,737*	—2,073,349	1st, 47; 2d, 16	112
Great Northern	May	1,725,891	+312,934	26,543,950*	+5,147,347	209	None
Hocking Valley	May	240,450	+17,395	2,445,193*	+168,248	None	11
Illinois Central	May	845,766	—62,062	6,695,964*	—6,782,720	None	109
Kansas City Southern	May	237,701	—25,613	2,747,986*	—591,672	21	30
Lake Erie & Western	May	80,725	+15,154	281,011†	—12,294	11	11
Lake Shore & Mich. So.	May	1,130,370	+127,367	6,280,911†	+1,760,691	None	49
Lehigh Valley	May	670,788	—821,612	10,413,649*	—2,102,553	...	60
Long Island	May	223,511	—20,704	282,380†	+58,192	None	12
Louisville & Nashville	May	1,165,212	+166,984	15,640,290*	+1,064,841	None	60
Michigan Central	May	659,531	+54,124	3,428,713†	+1,114,213	None	18
Minn. & St. Louis	May	120,891	+15,128	1,269,967*	—609,675	5	15
Minn., St. P. & S. S. Marie	May	471,032	+203,408	5,981,736*	+2,362,286	12	25
Mo., Kansas & Texas	May	476,753	—92,525	6,391,184*	—1,494,279	13	63
Missouri Pacific	May	1,427,400	+926,724	12,188,708*	+1,637,139	None	83
National Rys. of Mexico	May	654,562	+55,937	21,894,775*	+1,053,972	1st, 57; 2d, 240	149
N. Y. Central	May	2,166,728	—281,944	8,380,305†	—362,746	None	282
N. Y., Chic. & St. L.	May	261,418	+52,507	1,112,014†	+98,872	1st, 5; 2d, 11	14
N. Y., N. H. & H.	May	1,721,631	+144,419	20,624,449*	+1,489,497	None	157
N. Y., Ont. & Western	May	def. 9,738	—256,450	1,567,762*	—725,582	None	58
Norfolk & Western	May	1,271,045	+228,019	12,891,104*	+1,178,471	.22	85
Northern Pacific	May	1,727,227	—191,182	23,171,443*	—275,536	None	248
Pennsylvania R. R.	May	3,642,241	+391,785	14,292,386†	+488,862	None	453
Pere Marquette	May	322,211	+116,099	2,984,461*	+135,635	12	16
Pitts., Cin., Chic. & St. L.	May	712,616	—129,691	3,570,172†	+129,691	27	37
Reading	May	166,119	+17,635	1,803,929*	+197,284	1st, 28; 2d, 42	70
Rock Island	May	1,278,453	+232,166	15,141,016*	—1,876,928	49	90
Seaboard Air Line	May	475,885	—52,847	5,375,306*	—633,082	23	37
St. L. & San Fran.	May	1,008,550	—57,842	12,392,475*	—130,085	1st, 4; 2d, 15	28
St. L. Southwestern	May	221,592	+36,024	2,933,883*	+259,846	19	16
Southern Pacific	May	3,273,275	—112,231	36,710,673*	—2,912,164	None	272
Southern Railway	May	1,510,518	+25,781	18,535,114*	+482,807	60	120
Texas & Pacific	May	420	—97,576	664,203†	—16,487	None	38
Toledo, St. L. & Western	May	109,658	+17,773	924,814*	—15,094	10	10
Union Pacific	May	2,226,633	—437,649	28,859,633*	—3,891,262	99	216
Wabash	May	77,413	—339,007	4,938,692*	—2,038,410	39	53
Western Maryland	Apr.	205,119	—17,709	1,926,342*	—189,814	10	49
Wheeling & Lake Erie	May	182,769	—32,607	2,203,628*	+371.720	1st, 4; 2d, 11	20
Wisconsin Central	Apr.	310,207	+234,706	2,106,972*	+530.636	11	16

*Fiscal yr. ends June 30. †Fiscal yr. ends Dec. 31.

Railroad Common Stocks as Investments

By HENRY HALL

Author of "How Money is Made in Security Investments"

A TENDENCY of the times is toward investment in industrial preferred shares, notably in the shares of many new industrial corporations, which have come into existence within the last three or four years. There are a number of important companies of this class, whose preferred shares seem to answer all the requirements of gilt-edged investment, and whose common shares possess really remarkable speculative possibilities.

Novelty is always attractive; and new, showy, untried securities sometimes excite more interest, among men who have money to invest, than do staid and conservative issues, which have proved their intrinsic worth in many a panic and reaction. Without meaning in the slightest degree to disparage industrial preferred shares, new or old, and with no intention of denying the undoubted merit of many of them, it seems to me, nevertheless, as if railroad common stocks of the better class were entitled to far more consideration by investors than they are now receiving.

Discouragement seems to have overtaken many owners of railroad common shares, in consequence of a persistent public mania for regulation of the transportation companies. There has been a tendency to sell these shares and devote the proceeds to other investments. This has been especially marked since the death of E. H. Harriman, whose various brilliant speculative campaigns in railroad common stocks were a great source of profit to thousands of the laity in finance. No such meteoric flights in the realm of speculation, as those for which Mr. Harriman was largely responsible, have been witnessed since his departure from the scene. And a feeling has finally taken hold, both of investors and the speculative element, that hereafter, for many years, railroad common stocks will be eclipsed by public interest in industrials, and that their movements in the stock market will be comparatively tame and lifeless. Every investor naturally hopes for some sort of profit on his commitments in stocks, such as he has been able to reap many times in the past; and a feeling that the days of great profits are over, for a long term of years, on railroad common stocks, is turning away a vast sum of investment money from those shares into other channels.

Apprehension over the future of the railroads is acute on the part of some students of finance. I cannot bring myself to share this apprehension or take a gloomy view of the future of railroad common stocks.

The railroads of the country are being hindered to a certain extent, in their financial operations, by enactment of laws for the regulation of their affairs by national and state commissions, of which the Interstate Commerce Commission is the most important. These laws are inconvenient to the old time autocratic managers, but it cannot reasonably be maintained that there was no excuse for them. Rebates, extortionate charges, contracts which were conspiracies, and other injurious practices, certainly characterized the railroad management of this country more or less down to 1887, and have to some small extent since. It was those practices which gave rise to the act of February 4, 1887, creating the Commerce Commission; helped enact the Sherman anti-trust law of July 2, 1890; and directly led to the Elkins law of February 19, 1903, forbidding rebates; the Hepburn law of June 29, 1906, which granted the power to fix rates, and included the famous "commodities clause"; the act of June 18, 1910, enlarging the powers of the Commerce Commission; and of more than twenty other laws, amendatory of, or in addition to, the foregoing.

Since February 23, 1911, when the Commerce Commission, after a protracted hearing, forbade the much desired advance in freight rates by Eastern and Western lines, the railroads of the country have seemed to be held fast within the grasp of an iron and despotic hand. The old era of initiative, or at any rate of absolute control of their own affairs, on the part of the roads, appears to have departed. Whatever takes place

hereafter in the way of freight rates which shall afford a better return on invested capital, can come to pass, apparently, only with the consent of a public bureau, which has so far shown itself hostile to capital. The roads have been saddled with an increase of expense for labor, amounting to more than $100,000,000 a year, an increase which the members of the Commission have actively promoted; and the Commission has refused a moderate advance in receipts from shipments, which would have offset the additional charge for labor. Here is the iron hand.

Permission was given to the railroads to renew their application for higher rates in March, 1913. It is perfectly safe to say, that advantage will be taken of that permission; and results of the new hearing will have an important bearing on the future of railroad common stocks as investments. But suppose that the new application is refused, where will the railroads stand? Must bankruptcies follow, and are railroad common stocks of diminished value as investments?

The magnificent railroad system of the United States has been created by an expenditure of something like 18 billions of cash. Actual capitalization is more than that; but a part of the securities were sold for less than par in cash, although assessments have been paid on some securities to offset this difference. Eighteen billions is approximately the actual amount of cash expended. Upon something like 3½ billions of this money, no dividend or interest is being paid at the present time, compared with 2⅝ billions in 1907. This looks a little as if regulation of the railroads might be producing an unhappy effect, and certainly raises the question how much farther this tendency is likely to go.

There is another side to the picture, however. First, stability in freight rates, on the whole, seems to be guaranteed by the present state of facts. There is a paring away here, and a paring away there, by successive decisions of the Commerce Commission, in response to complaints by the irrepressible shippers of merchandise; but there seems to be no danger whatever of any wholesale reduction of freight rates. This is one cause for genuine encouragement. With present rates, many of the great railroad systems of the country are doing extremely well.

The continual growth of population and traffic in a country which has by no means reached its full development is a force tending slowly but surely to expand the gross receipts of the railroads. Years following panics are always lean in all trades, but once the effect of a panic wears off, gross receipts of railroads expand promptly and rise to a new high level. Sagacious, calm and far-seeing judges, who try to see things just as they are, expect that growth will continue to characterize railroad gross receipts for the next fifty years, perhaps for a century, and at any rate until the United States has reached its maximum development in population, agriculture and industry.

When, February 23, 1911, the Commerce Commission refused the appeal of the transportation companies for higher freight rates, it enjoined upon them an experiment with the utmost economy for two years, in order to test the practicability of maintenance of dividends upon the basis of the present rates. Every one knows that rigorous economy has been the rule, from that time to the present. Economy, combined with new vigor of management, has certainly produced handsome results on many of the great lines. Michigan Central has occasionally made a million net, per month, from operation, something unparalleled in the history of the company. Central of New Jersey has done the same. Erie, Lake Shore, N. Y. Central, Norfolk & Western, and some other roads have frequently eclipsed all previous records, in the way of monthly profit from operation, and the showing at the end of the fiscal years has been entirely satisfactory. One looks in vain for any cause for apprehension in this direction, in the case of the majority of American railroads, especially among those which have not attempted some herculean overextension of enterprise for the benefit of the next generation, like St. Paul, Missouri Pacific and Wabash.

Encroachments by labor unions have excited alarm to some extent, especially

the latest shibboleth of the Industrial Workers of the World, "labor is entitled to all it produces," which is a muddled version of an idea advanced by Adam Smith in his "Wealth of Nations." The real meaning of this in the minds of labor agitators is that labor is entitled to all the profits not only of labor but of capital. Labor is entitled to the profits of labor, but not to the porfits of capital, which employs labor. And no alarm need be felt over the new doctrine of the labor unions.

It must be admitted that there is some danger to the railroads in the persistent demand of labor for more pay and shorter hours; and here is, in fact, the only real cause for apprehension as to the validity of railroad common stocks for investment, which can be discovered. I cannot but believe, however, that public sentiment will refuse to justify any tyranny, any violence, any war on the part of labor unions, which will imperil a just profit on capital invested in the railroads of the United States. Public sentiment having fought and ended the old time tyranny of the railroad corporations themselves, and being now placated in a marked degree by its victory in this direction, is certain to oppose any dangerous tyranny on the part of the labor unions over the corporations.

Perhaps the best evidence of the excellence of railroad common stocks for investments, the most tangible evidence, is found in the attitude of great banking and financial interests at this time toward the railroads. So far from being hostile to the railroads, they are favorable to these great companies. The billion a year, which J. J. Hill declares that American railroads must have for some time to come, is being supplied practically as rapidly as the companies call for it; and there is not the slightest doubt on the part of men of seasoned judgment and great wealth, that railroad shares are among the safest and surest of sound investments. They consider that the era of competitive construction is now practically ended in the United States, and that the work of the future will consist mainly in the perfecting of existing systems. They are looking for higher prices than have ever before been known for the common shares of many of our American railroads, on their investment merits alone.

There is always room for selection, on the part of an investor, and no adviser can conscientiously recommend all railroad common stocks without exception. But in view of what has already been said, and in view of the manner in which coming changes of the tariff laws may affect many of the industrials, railroad stocks would seem to be entitled to the highest consideration.

And so far as there not being in prospect any more great speculative campaigns in railroad shares, those who assert that seem to have forgotten something. Men of the stamp of E. H. Harriman, H. H. Rogers, and of William Rockefeller in his prime, not to mention others, yet exist among us, fully as eager for speculative profits as the giants of the past, and many of them with their fortunes yet to make. Given the ghost of a chance, with circumstances favorable to such campaigns as the never-to-be-forgotten 1906, men of initiative will not be found lacking to take advantage of opportunity.

There is one field, if no other, in which great speculative campaigns in the rails will be possible. The very circumstances in which American railroads find themselves has led to the conception of far-reaching schemes for consolidation of connecting lines into transcontinental systems. It is well known that E. H. Harriman entertained plans of this character. George J. Gould, Daniel G. Reid and others have occupied themselves with similar projects. The Vanderbilts have actually entered upon such an enterprise. John D. Rockefeller has taken part in extensive financing for the benefit of Western Pacific and others of the old Gould lines, sufficient to provide for their requirements for all time.

It is a perfectly safe prediction that time only is required, before we shall see speculative campaigns in railroad common stocks, different perhaps in character from those which have preceded, but quite as lively and interesting. The long pull investor would, in my opinion, do well to consider some of these plans and what they are likely to lead to and to pay considerable attention to railroad common shares.

When Will the New Subways Pay?

A Broad Consideration of the Possibilities for the Interborough and Brooklyn Rapid Transit Companies

"EVERYBODY seems to assume," said an investor recently, "that the new subway system is certain to pay almost from the start. I wonder how many people have given the subject any careful consideration. We are going to double our rapid transit facilities in four or five years. Where are the people coming from to ride on these new routes? Our population certainly will not double in that time."

"But the new routes will develop a great deal of new business," we suggested.

"Aside from increase of population, most of that new business will be taken away from the surface car lines; and nearly all the surface lines are owned by the same companies which are going to build the new subway and elevated routes —the Interborough and the Brooklyn Transit. They will be simply taking money out of one pocket and putting it into the other.

"The situation is entirely different from that when the present subway was undertaken. That was before the tunnels under the Hudson and the East River and before the new bridges were opened. An enormous population was cooped up on Manhattan Island. All the elevated roads were overwhelmed with more business than they could carry.

"At the Brooklyn Bridge Terminal you almost had to fight for your life every night. You could stand on Morningside Heights any evening and see a long procession of trains, drawn by those little bob-tailed steam locomotives, creeping around the 110th street curve and waiting for a chance to discharge their perspiring and struggling passengers at 116th street and 125th street.

"On the Third Avenue Elevated it was worse still. People were crowded into the trains like sardines packed in oil. (This comparison was peculiarly apt on hot summer nights.) Fights and accidents were by no means uncommon.

"When the new subway was opened it was the one avenue of escape. Population rushed up into the Bronx and along Riverside Drive and Washington Heights like bees swarming out of a crowded hive.

"The situation now is entirely different. We have tunnels to Jersey and tunnels and bridges to Long Island. The railroads have greatly increased and improved their suburban service. We have a new Rapid Transit system just completed in Westchester. The only place where there is the same pressure there used to be is on the Bronx branch of the subway and on some lines of the Brooklyn Elevated. Otherwise, it is easy enough to get off Manhattan Island at any hour of the day. I predict that it will be twenty years before New York grows to the point where the new subways and elevated lines will be as profitable as the old ones are now.

"The present subway was the only outlet. The new system will spread in every direction and will be ably supplemented by other transportation facilities. There is no fair comparison to be drawn with our past experience."

This point of view is certainly worthy of some consideration. The present population of New York City is not far from 5,000,000. The rate of increase is now estimated at about 200,000 a year. On this basis the population would be 6,000,000 five years from now, when it may be assumed that the new system of rapid transit will be in operation.

The capacity of present subway and elevated lines is 750,000,000 passengers yearly and it is figured that the new lines will just about double it, making 1,500,000,000 passengers annually. In addition to the above, surface car lines carried 803,000.000 passengers last year.

If we assume that the increase in surface lines during the next five years may be neglected, the total carrying capacity of surface and rapid transit lines will have increased from 1,550,000,000 passengers now to 2,300,000,000 in 1917 or about 48 per cent., compared with an increase of not over 20 per cent. in population—probably less, as it is the rule that the larger a city grows the slower the per cent. of increase.

Another important consideration is that the average haul on the new routes will be longer than the average haul on the present lines. This will add to the cost of operating compared with the number of passengers carried.

On the other hand, the city supplied only $52,000,000 out of a total of about $264,000,000 invested in the present rapid transit system, or 20 per cent.; while for the entire system as projected, including present lines, it is expected that the city will have supplied $205,000,000 out of a total of $554,000,000, or 37 per cent. Interest on the company's investment will undoubtedly come ahead of the city's compensation.

The answer seems to be that it will probably take New York's population until 1925 or later to catch up with the proposed rapid transit facilities; but as soon as receipts exceed expenses, all the surplus will be applicable on the capital furnished by the companies, or about 5/8 of the total capital to be invested.

Since the new routes are really to be built by the present companies, the whole rapid transit situation becomes a sort of construction proposition until the entire system is in operation. It must be judged as a whole and no intelligent comparison can be drawn with the results obtained when the present subway was opened, either as regards the profits of the companies or the effect on real estate values.

The Investment Digest

THE sources of items are indicated as follows: *Leading financial and investment publications. †Banking and Stock Exchange houses. §From official sources. Neither "The Magazine of Wall Street" nor the authorities quoted, guarantee the information, but it is from sources considered trustworthy. Owing to the vast amount of information condensed into these pages, many abbreviations are necessary.

Allis-Chalmers.—*To date, amount of bonds deposited has increased to 93%; com. stock to 87%, and pref. to 90%. Foreclosure proceedings are part of reorganization plan. Value of properties is estimated at $15,000,000. June bookings were largest for any mo. in yrs. Business showing steady gain since default of bonds in Jan.—†Foreclosure sale has been postponed until Sept. 11.

Am. Beet Sugar.—†Demand for the product increasing, and cost of manufacture gradually being lowered. Probable earnings for com. divs. are between $16 and $17 per share. Crop will be very large this yr. and quality good. There appears to be good basis for increase to 6% at the Oct. meeting.

American Can.—†Since close of 1911 yr., business has shown pronounced increase. Plants are operating at practically full capacity. Divs. on the pref. stock are cumulative and back divs. amount to 34½%. It is the plan to pay these in cash by annual distribution of $10.75 per share. Com. will then be in position to derive substantial divs..—*Net earnings were in excess of $2,250,000. Should last 7 mos. of current fiscal yr. show earnings in proportion to the first 5, 1912 would show net of about $6,000,000, equal to nearly 15% on pref. This would pay pref. div. for this yr., and leave 10% with which to pay off back divs. next yr., in addition to earnings of 1913.

Am. Car & Foundry.—*In 1911-12 earned smallest surplus for com. with one exception in its history. Gross earnings off $2,000,000, but despite setback, was able to show full 7% on pref. and 2.4% on com. Increase in com. div. is remote, but $25,000,000 surplus gives safe assurance of present rate. On May 1, Co. had contracts for considerably greater number of cars than same date yr. previous.—†The crop situation

has so improved that in the autumn the rairoads will need fully 200,000 cars more than they now have. The probability of good earnings for this Co. for yr. to end with next Apr. has thus become much more definite. Co. now operating at 75% of capacity.

Am. Cities Co.—†Stock has just been listed on the N. Y. Stock Ex. It is a holding Co. incorporated in N. J. June, 1911. It owns 85% of pref. and 94¼% of the com. stocks of the New Orleans Ry. & Light; Birmingham Light & Power; Houston Lighting & Power; Knoxville Railway & Light; Little Rock Ry. & Electric, and Memphis Street Ry. Co. has capital of $60,000,000, consisting of $25,000,000 com. and $35,000,000 6% cumulative pref. An initial semi-ann. div. of 3% was paid on the pref. in Jan. of this yr. The combined income statement of constituent Cos. for yr. to Dec. 31 last shows gross earnings $13,303,683, an increase of $661,414, or 5.2% over 1910. Net for 1911 was $5,328,874, an increase of $307,722, or 6.1% over 1910 and the balance for divs. was $2,321,018, increase of $244,314, or 11.2%. Balance sheet as of Dec. 31 last, showed liquid assets, including $679,981 cash on hand, was $1,466,239; current liabilities $318,688, leaving working capital $1,147,551.

Am. Cotton Oil.—*Co. should show 4% or 5% on com., which would mean balance of $1,000,000 available in comparison to deficit of $252,105 last yr. after payment pref. divs. Average price on cotton seed from last crop close to $20 a ton, compared with $30 a ton in 1910-11. Outlook for 1912-13 satisfactory. Demand for finished products dull, but margin of profits on business done is satisfactory.

Am. Ice.—*Co. recently issued $6,500,000 30-yr. 6% bonds to provide for the redemption at maturity of all bonds coming due for next 10 yrs., of which $3,000,000 sold to provide for redemption on Aug. 1 of equal amount of 1st mort. bonds. This issue was purchased by strong Philadelphia syndicate. Co. now in most active part of yr.'s business. From May 1 to Oct. 31 fully 75% of yr.'s gross sales are made. Other six mos. produce less than enough net to meet operating expenses. Co. will certainly earn 4% or 5% on its pref., but it is better policy to continue large plant improvements still under way, entirely from surplus earnings.

Am. Locomotive.—*It is expected that net for June quarter, the last three mos. in fiscal yr., will run between $1,200,000 and $1,300,000. This is based on known results of Apr. and May, which showed net of over $900,000 and a conservative estimate of the output for the current mo. Net of $1,300,000 would be an annual rate of 14% on the $25,000,000 com., compared with 7.2% for the 1911 fiscal yr. Fiscal period to June 30 is likely to produce a balance for the com. of between 9% and 10%. At one time Co. was running as low as 35% of normal, but today it is running over 80%. Co. has $2,000,000 notes coming due in 1913 and an equal amount in 1914. It is not likely the com. will receive consideration until these notes are out of the way.

Am. Smelt. & Ref.—†Strike at Perth Amboy is over. Men receive virtually no increase in pay. Co.'s Mexican properties making very good showing this yr., and the position is better now than for several yrs. 1912 should be most gratifying. Advance of $5 per ton in price of lead making basis 4.75c. per lb. New York is of importance to Co. New price highest since 1907. Co. now having record earnings, as this yr. it is getting benefit of enormous copper production which it did not have in 1907.

Am. Sugar. Ref.—*Victory for plaintiffs in suit against Havemeyer estate for return of $10,000,000 com. of National Sugar. Ref. Co., is in reality a sweeping decision in favor of Am. Sugar Ref. Opinion handed down practically means that the $10,000,000 com. is to be canceled, all of which is owned by the Havemeyer family or estate. Court may order assessment paid in full by the present holders ($100 per share), or cancellation of the stock if no outstanding creditors are thereby injured or stock may be allowed to stand, but without right of div. or voting privileges. Either one of these courses takes it out of the power of the Havemeyer family to become a dangerous competitor for Am. Sugar. National Sugar is 25% as large as Am.

Am. Tel. & Tel.—*For first six mos. of 1912 it is understood that the parent corporation earned balance after div. within less than $50,000 of 1911, which is difference of hardly 2% after allowing for increase of $1,300,000 in div. paid; due to larger amount of stock outstanding as result of sale of $55,000,000 new stock on June 1, 1911. This slight decrease of $50,000 was after undivided earnings of subsidiary Cos. had shown increase for the period of $1,800,000. Depreciation charges of the Bell system are this yr. running at the rate of over $32,000,000 per annum, compared with $28,655,832 in 1911. Process of steady absorption of independent telephone Cos. at various points throughout country continues its regular course.

Atchison.—*Estimating conservatively, indications are that report for fiscal yr. just ended, Co. will show close to 8.25% on com. Earnings are figured on $169,402,500 com. outstanding Mar. 31, 1912. Last yr. Co. earned 9.29% on $168,518,500 com. and yr. before 8.88% was earned on $165,518,500 stock. The gradual increase in com. stock is due to bond conversions, which this yr. will be about $1,000,000 as against almost $3,000,000 in 1910-11. Co. is going ahead with its improvement program. The budget calls for outlay of over $22,000,000.

To meet this, Co. has need of a large cash surplus.—§Earnings seem to have changed for better, the Apr. net being $3,504,336, against $2,935,387 a yr. ago; and if crops prove good, the stock next yr. should earn 10 or 11%.—†Gross in May reached a new high mark, and although 303 miles of new road have been opened in past yr., earnings per mile were $861, an increase of $17 per mile. The gain in total gross earnings amounted to $430,600, or about 5%. Net earnings are satisfactory. In May the increase amounted to $600,000, or more than 24%. Loss in net for 11 mos. to end of May stood at $1,251,000 and returns for June should bring loss down to below $1,000,000. Com. div. balance in this event will be equivalent to about 8.70%.

Baltimore & Ohio.—†Co. will shortly show record volume of traffic handled, and gain in gross over last yr. will amount to about $700,000. Net returns for May will probably show increase of $250,000. Returns for May assure com. div. for entire fiscal yr. equivalent at 9½%. In 1911 div. balance was equivalent to 6.89%.—*Earnings reinvested in property for 11 mos. 30%, with increase of $3,596,195 in gross and a decrease in transportation expense of $301,000. Completed yr. will show increase in net as well as gross over previous yr.

Bethlehem Steel.—*The Mexican Gov. has awarded a contract to a subsidiary of Bethlehem Steel for naval armament to cost $33,000,000 gold. For yrs. European manuf. dominated both markets.

Brooklyn Rap. Trans.—*Fiscal yr. ended June, gave 3.5% gain in gross from passengers. Total gain in operating revenue may be $1,400,000, giving $700,000 net or over 3% in excess of the 5% div.—†Six per cent. divs. probable this fall. New financing for building of the subways to N. Y. has been surprising success. Issue of $40,000,000 notes three to four times over-subscribed. Interest on notes charged to cost of construction, and later, the notes will be converted into bonds of construction Co. —*Co. has 541 miles of surface tracks operating under perpetual franchises. For current fiscal yr. to end June 30, President Williams estimates that Co. will earn $3,600,000 above int. and fixed charges. In 10 yrs. gross revenue increased 74.6% while net income increased 123.2%. Cos. of system have decided to contest order of Public Service Commission compelling equipment of street surface railroad cars with air brakes at estimated cost of $700,000, on ground that air brakes on street surface railroad cars have no effect.

Central of Georgia.—*Stockholders at special meeting, called for July 18, will be asked to authorize issue of $75,000,000 5% ref. bonds and not $50,000,000, as was previously stated. It is proposed to reserve $40,000,000 of new issue for refunding purposes and balance issued as needed for improvements, betterments, etc., over a series of yrs. Probably not more than $4,000,000 or $5,000,000 will be sold at present. Co. purposes to exchange the $15,000,000 new pref., which was authorized on June 6 last, for income bonds which were purchased by Ill. Cen. This will increase stock of the Cen. of Georgia to $20,000,000, all of which will be owned by Ill. Cen. and in turn the bonded indebtedness of Co. will be reduced by $15,000,000.

Central Leather.—*For first half of fiscal yr., to June 30, it is expected that balance for divs. above fixed charges will exceed $2,200,000, equal within $150,000 of full yr's. 7% div. on pref. If Co. can do as well in last six mos. as in first half, it stands a fair chance to restore to surplus the $2,035,748 which was drawn from that account to make possible the continuance of 7% divs. during the dark days of 1911.

Chesapeake & Ohio.—*Indications point to further increases in gross and net for May and June, and it is now reasonably certain that balance for divs. will exceed 5¾% on the outstanding com. stock. In 1911 balance was equivalent to $5.06. Declaration of 7% divs. by Hocking Valley and of 5% by Kanawha & Michigan during current fiscal yr. to June 30, means an additional full ½ of 1% for Chesa. & Ohio over the ¾% realized in 1911. The latter road owns $8,825,800 of Hocking Valley's $11,000,000 stock and $4,027,100 of Kanawha & Michigan's $9,000,000. Lake Shore owns a like amount of Kanawha & Michigan's stock.

Chi., Mil. & St. Paul.—*Poor earnings in Apr. have revived reports that the 5% com. div. may be reduced at July meeting, but directors feel that the rate should be maintained. Net earnings of $10,644,000 for the ten mos. to end of Apr. indicate that St. Paul will not earn much in excess of 2½% on its com. stock for the entire fiscal yr. The deficit after divs., which will probably amount to $2,900,000, will be paid out of accumulated surplus. Reasons for continuing the 5% com. div. are that the crop outlook in the road's territory is excellent and prospects strongly point to a general revival in business this fall. In May operating expenses and taxes increased in even larger proportions than they did on the average in the ten mos. preceding, so that it appears that the road will close the fiscal yr. with operating income over $3,000,000 behind what it was last yr. Last yr. fixed charges took up $8,372,348. Assuming that the amount will be about the same this yr., there will be left for com. divs. after all other charges about $5,012,419. This is 4.3% on com.

Colo. Fuel & Iron.—*Announcement made of 5% div. on the pref. stock. The first div. is payable July 20 and the other on Jan. 30, 1913. These are the first divs. declared on pref. since Feb., 1903, when 4%

was paid. Pref. is entitled to 8% per annum before com. receives any payments. There are back divs. on the pref. amounting to over 60%. In last fiscal yr. Co. earned 3.47% against 4.15% in 1910. At end of last fiscal yr. Co. had working capital of over $17,000,000 and as it would require over $1,000,000 to liquidate back divs. on pref. it seems probable that this policy may be adopted.

Colo. & Sou.—*Co. will probably earn between 2.75% and 3% on its $31,000,000 com. For yr. ended June 30, 1911, it earned 5.22% and in yr. previous 7.33%. Present 2% com. div. will not be acted upon until Dec. Loss in gross for yr. was 12%, total being $13,937,360 against $15,824,065 for 1911. It is likely that surplus for com. for yr. ended June 30 after deducting the $680,000 divs. on pref., will be $840,000, compared with $1,618,592 for yr. previous which would leave Co. surplus of $220,000 after all divs. Actual balance for divs. for eleven mos. was $1,486,342. June gross $125,000 less than last June.

Crucible Steel.—*Fiscal yr. ending with Aug. the best since 1910, and will show 13% earned on pref., compared with 10.23% last yr. Net should be at least $3,250,000 for this yr., and will be equal to 6% more than pref. div. requirements. Co. owes pref. about 16% in accrued payments to date, and it is probable that part of this will be paid out of 1912 earnings. Co. has never paid a com. div. Through 1911 Co. paid the regular 7% on pref. and this will be continued.

Erie.—At end of Mar. Co.'s gross was $898,000 ahead of last yr.'s and net was $729,000 behind. Gross in Apr. and May was $7,868,000, compared with $9,025,000 in same mos. of 1911, and net in same period was $1,431,000 compared with $2,775,000. As result 11 mos. gross is actually $287,000 less than for yr. previous and net shows decline of $2,073,000 or 14.3%. In 1911 surplus over charges reported of $5,[illegible]90,412 sufficient to provide regular 4% pref. and leave balance of $2,834,716 for com. equal to 2.5%. $2,073,000 loss in net cuts balance for com. from almost $3,000,000 to less than $1,000,000. Percentage of charges to gross advanced from 24.3% in 1905 to 28.4% in 1908, and the ratio to net increased in the same period from 69% to 114%. Since that time gross and net have both shown substantial improvement. June results will show improvement over those of preceding mo.

Federal Min. & Smelting.—†Based on profits for May of $81,000, Co. is earning approximately $20,000 per mo. above present div. requirements. Profits for May showed $15,000 over previous mo. Co. is running fairly constant, and probably will continue so. Present pref. div. of 6% calls for monthly profits of $60,000. The returns of $81,000 for May indicate 8% per annum. In Feb. the pref. div. was cut from 7% to 6% per annum.

General Electric.—*Gross Business for six mos. ended June 30 last, was about $47,000,000 or at the annual rate of $92,000,000. During last fiscal yr. Co. earned about 17% on its total capital stock. It is well konwn that on Dec. 31 last, Co. had a total profit and loss surplus of more than $29,000,000 and it is fair to assume that stockholders sooner or later will receive a portion of this large balance. It is not known as yet whether the distribution will take the form of a cash payment or an offer to stockholders to subscribe to a new convertible bond issue. At the close of last fiscal period Co. had a working balance nearly as large as the total outstanding capital stock. At present time, Co. has a very liberal amount of cash on hand. A factor which will prove of considerable significance to both the Gen. Elec. and Westinghouse Cos., is the proposed construction of new subways in Greater N. Y. Volume of business is running about 10% ahead of a yr. ago, but earnings do not show a proportionate increase, due to lower prices.

Great Northern.—(See Hill Roads.)

Guggenheim Exploration.—*The item "Miscellaneous Investments" given in the aggregate total in the annual report is now shown to consist of 36,600 shares of the Chino Copper Co., which were acquired at a cost of $22 a share. In addition to cash of $1,028,923, the Exploration Co. has demand loans of $6,693,009, which include $1,798,159 loaned to the Yukon Gold Co., of which the Exploration Co. owns 2,769,639 shares.

Hall Signal Co.—*In response to stockholders in adjusting finance of Co., the new pref. should be sold to shareholders at less than par; the readjustment committee has decided to and will offer new pref. at the rate of $80 for each $100 share of old stock. Each stockholder is entitled to subscribe by July 15, 1912, at new rate for amount of stock equal to 62½% of his old holdings. Under this modification for each $100 subscribed there will be given $125 of new pref., together with $200 of new com. To make this change new pref. will be increased $250,000 to $2,250,000, of which $1,250,000 will be sold to present stockholders and $1,000,000 will be retained in treasury to be exchangeable for 6%, 20-yr. con. debs. which are to be issued. Subscriptions are payable, the first installment after July 15, upon 10 days' notice to subscribers. There will be five installments of 20% each.

Harriman Lines (Union and So. Pac.)—†In fiscal yr. U. P. will earn about 15%. The actual profit and loss balance of U. P. amounts to $220,000,000, or more than $100 a share for every share of com. stock. Of this $187,000,000 is in cash and liquid assets. —*U. P. and Sou. Pac. ended first 11 mos. of current yr. with losses in net of $3,891,-

262 and $2,912,163 respectively. May losses for Un. a decline in net of $437,648 and Sou. of $112,231. Labor strikes have increased expenses. 1910 was one of phenomenal earnings for both Harriman lines, and since both gross and net have steadily declined Net of U. P. down 10% since 1910 and Sou. Pac. 8%. It is only the exceptional surpluses above div. requirements which roads have that prevents threatening existing rates. Earnings this yr. will result in per share profits of 14% on U. P., compared with 16.6% in last yr., and 9.2% for Sou. Pac., against 9.5% a yr. ago.—†U. P. net for June will make a more favorable comparison with the corresponding mo. of last yr. than was the case in May. Flood conditions caused abnormal increase in operating costs.

Hill Roads.—*Gt. Northern, Apr. showed increase in gross of better than 10%, while net increased over 34%. For 10 mos. of the fiscal yr. gross increased $4,002,692, or 7.32% and net gained over $4,773,000 or 19.16%. Co.'s most favorable showing in Feb. Reduction in costs in almost every department of operation one of the contributing factors toward road's good showing. It is apparent that 1912 showing will be best in its history. —§As for Gt. Nor., J. J. Hill says: "The Gt. Nor., which includes the Manitoba, never failed, never passed a div., never was financially insecure in any time of panic. The Co. has now acquired a standing which nothing in the ordinary course of events can impair. The financial outlook of this Co. is as well assured as that of most governments. It is financed for a period beyond which it would be fanciful to attempt to provide. And the development of its business throughout every part of the practically half a continent which it serves makes the payment of divs. on the stock as certain as that of its bond coupons. There has never been a dollar's worth of stock or bonds issued that was not paid for in cash, property or services at its actual cash value at that time. The financial interest of myself and family in it is larger now than it ever was at any time in the past and any change would more probably increase than diminish it."

Illinois Central.—*Co. will probably show large deficit after divs. in current fiscal yr. Net for 10 mos. to end of Apr. $5,850,000, which is a loss of $6,720,600 or 53½% compared with same ten mos. last yr. Earnings indicate that balance for divs. for yr. will not exceed 4%. Co. declared regular div. of 3½% for semi-annual period in spite of poor showing. Co. has sold to Kuhn, Loeb & Co. $15,000,000 4½% two-yr. secured notes, being issued to provide funds to pay for Georgia Central 5% income bonds recently acquired by Co. Returns for May for gross shows loss of $114,000, while net loss but $62,000 in comparison with last yr.

Inter. Rapid Transit.—*Co. has declared extra div. of 5% out of surplus profits. Cash involved with payment is $1,750,000, nearly all of which will be turned over to the Interborough-Metropolitan Co., which owns $33,912,800 of $35,000,000 outstanding capital stock of Inter. Rap. Trans. Co. this yr. will earn about 16% on present stock. Co. closed yr. June 30 with gross gain for mo. of $158,000, compared with increase of $121,000 in May, and $144,000 in Apr. For 12 mos. to June 30, gain in gross from passengers was $1,444,000. 1912 yr. increased 5% in total receipts. This compared with 2.7% in 1911 and 9.3% in 1910.

Inter. Agri. Chem.—*$9,892,000 1st. mort. & coll. tr. 5% 20-yr. sinking fund gold bonds of Co. are now being offered. Bonds dated May 1, 1912, due May 1, 1932, and are part of total authorized issue of $30,000,000, of which $13,000,000 outstanding. Of $13,000,000 outstanding, $3,108,000 have been exchanged and are held for investment by former owners of bonds of one of the subsidiary Cos. Tangible assets of Co. on June 30, 1912, including net current assets, estimated at $30,000,000. Of present issue, $6,525,500 used to retire all bonds of subsidiary Co. and balance, $6,474,500, applied toward retirement of floating indebtedness. For yr. ended June 30, 1911, Co. showed surplus applicable to interest, equal to over three times interest charges on the $13,000,000 bonds referred to above. For first six mos. net amounted to $839,914, leaving balance for com. of $383,554, which is at rate of 9.82% on com. for full year.

Inter. & Gt. Northern.—In four yrs. from 1908 to 1912 gross revenues increased 47.7% or at rate of 12% per annum over the 1908 basis. In fiscal yr. ended June 30, 1908, total revenues were $6,922,000. In twelve mos. ended June 30 gross revenues were $10,229,000. From Sept., 1911, to April, 1912, property earned $860,000 in excess of all fixed charges, equivalent to annual rate of 5% on pref. and 20% on participation certificates outstanding.

Inter. Mercantile Marine.—*Gross business exceeds $39,000,000. Surplus of $4,509,270 in 1911, compared with $4,849,581 for 1910. Net profits for yr. 8.70% on pref., compared with 9.37% yr. previous and 2.28% in 1909. Net profits sufficient to have paid 6% on outstanding pref. and leave balance equal to 2.79% on com., compared with 3.49% yr. previous. Under provisions of the sinking fund, $325,000 of 5% mort. bonds were retired at par on Aug. 1, 1911, and $250,000 will be retired on Aug. 1, 1912. Debenture bonds of constituent Cos. held by public amounted on Dec. 31, 1911, to $6,612,160 as against $6,615,312 on Dec. 31, 1910. Vessels now in various services is 120.

Kansas City Southern.—*Co. has shortest line from Kansas City to the Gulf. Operates 1,257 miles of track, including leased lines and sidings. Has funded debt of $45,846,000. also $21,000,000 4% non-cumu. pref. and $30,000,000 com. Pref. divs. inaugurated in June, 1907, and continued at the rate of 4% per annum. Net earnings for last fiscal yr. $3,266,898, increase of 18.6% over 1908. Balance for pref. divs. $7.93 per share. Co.

has made poor showing in current fiscal yr. in earnings. Divs. were, however, earned. Improvements now being carried on will cost about $10,000,000, and when completed should enable road to handle more business. Opening of Panama Canal should increase business. Gross business amounts to less than $10,000,000 annually. Cumulated surplus on June 30 of $4,587,000, equivalent to $21.84 on pref. Surplus for div. on pref. in past 5 yrs. has averaged $1,820,270.

Lehigh Valley.—†May was poor mo. Gross lost $1,218,800 or 34.6%, and net $515,660 barely covered charges. Loss in net compared with May last yr. amounted to $842,595 or 62%. Net 11 mos. to end of May $8,810,000 which is loss of $2,340,700 or 21%. Poor showing in current fiscal yr. does not necessarily mean that Co.'s div. is in danger. Important reason for poor showing in net is that maintenance charges were increased more than $600,000 and took up over 27% of operating revenues.—*June earnings trifle better than same mo. yr. ago. No divs. have been declared by the Lehigh Valley Coal Co., and there is no indication that any will be in the near future. Coal Co. uses its surplus to finance own development.

Long Island.—§Records for sale of commutation tickets steadily being supplanted by new high marks. Latest shows 18,558 commuters this mo., which is 2,460 more than in June, 1911, and also the greatest monthly increase in history of road's commutation business. Commutation on the Long Island R. R. has practically doubled in the last six yrs. Every mo. of 1912 from Jan. to June shows increases over the same mos. of 1911.

Loose-Wiles Biscuit Co.—*Next to Nat. Bis. Co. it is the largest manufacturer in this country. Gross sales increased from $2,468,008 in 1903 to $11,696,461 at close of 1911, or a gain of 375% in past eight yrs. Present Co. recently took over business and assets of the Loose-Wiles Biscuit Co., of N. J. Stock of old Co. $3,000,000 pref. and $6,000,000 com. Under reorganization, capitalization changed to authorized $5,000,000 cumu. 7% 1st pref., $2,000,000 cumu. 7% 2d pref. and $8,000,000 com., all outstanding. Combined earnings for divs. for nine yrs. ended Dec. 31, last, averaged $349,652 per annum. For past three yrs., averaged $453,118. Net for 1911, $531,377. Net for current yr. estimated to be $700,000. A cumu. sinking fund is to be created out of surplus profits and is to be applied to purchase or redemption of first pref. up to 120. This sinking fund to amount to $75,000 in each yr. from 1915 to 1919 and to $150,000 in each yr. thereafter. First pref. has full voting rights and is also entitled to elect one-third of the board of directors, remaining being elected by second pref. and com. Co. has declared an initial quarterly div. of 1¾% on first pref. and first and special div. of 2⅓% on second pref. After Aug. 1, regular quarterly payments will be 1¾%.

Louisville & Nashville.—†Probability of juicy "melon" cutting this fall, and being placed on regular 8% basis. Balance for divs. in fiscal yr. to end with close of present mo., equal to $17 per share of capital stock outstanding. At close of last fiscal yr. Co. had net working capital of $44,000,000 in which was included $15,198,000 cash on hand. Profit loss balance $31,246,800, equal to $50 per share of capital stock outstanding. Earnings for 1911 fiscal yr. best in history of Co. In 11 mos. of present fiscal yr. gross increased over $2,000,000 and net $1,187,000, which indicates that balance for divs. will be $2.75 per share larger than 1911. At close of this fiscal yr. Co.'s profit and loss balance should amount to over $37,000,000, which is equal to $61 per share of capital stock.

Mexican Petroleum.—†Co. owns or controls 600,000 acres, or nearly 1,000 square miles of oil lands in Mexico, 26 completed oil wells with present producing capacity of about 70,000 barrels per day, about 10 miles of railroad, about 130 miles of 8-inch pipe line, etc. Property conservatively appraised at $73,624,000, or value of $175 a share on com.; 3% paid on pref. in 1907, and paid yearly since. Com. div. 4% in 1% quarterly payments. Earnings said to be at rate of nearly 14% on com. Fairly estimated that wells will produce for 40 or 50 yrs.

Mo., Kansas & Texas.—†Net returns for yr. just closed about $5,585,000. Decrease of $1,860,000, or 25% compared with 1911. In order for net to reach the above total it will be necessary for June returns to come up to June of a yr. ago. Net for May decreased $107,400, or 22%. Apr. net decreased $29,880, or more than 9%. Mch. net decreased $185,000, or 48%. Directors meet for divs. in Oct., but in spite of poor showing of 1912 it is unlikely that pref. will be reduced. Present 4% in force since 1906. Net poorest reported in several yrs. because operating conditions were exceptionally severe. Outlook for business very favorable.

Missouri Pacific.—†Co.'s earnings for May best reported for any mo. of this fiscal yr. Net increased $926,000 and balance after charges gained $831,000, due to special causes. Co. for entire fiscal yr. will probably show deficit after charges of $1,900,000. In May balance for divs. $79,000. For 11 mos. of fiscal yr. to end of May road failed to earn charges by $1,908,000. This is improvement of $823,000 compared with same 11 mos. of previous yr. Results of Co. during next few mos. and probably for 1913 fiscal yr, will be materially better than in fiscal yr. just closed. Business outlook in Co.'s territory very favorable. Operating efficiency greatly increased through liberal expenditures for maintenance, improvements and additions, and ratio of transportation expenses to gross has been brought down from 42.4% for 1910-1911 to 39.1% for 11 mos. of 1912. Maintenance expenditures in 1912 fiscal yr. about $1,600,000 larger than 1911.

National Biscuit.—*Cash resources close to $4,000,000 and bills payable less than $500,000. Net earnings for the quarter ended Apr.

30, were in advance of those for the same period a yr. ago. Co.'s plants running at full capacity to meet heavy summer demand. The bonds of its subsidiaries have all been retired, while holding corporation has no bonded or other mortgage indebtedness.—†Prospects of increase in return on investment or extra div. this fall are improving. Business of Co. has reached new high record. Plants operating at full capacity, and net earnings are constantly touching new high marks. It is very likely the fiscal yr. to end Jan. 31, next, will be the best Co. has yet experienced.

Nat. Enam. & Stamping.—†Co. organized in 1899. Produces practically all enameled ware made in U. S. The preferred paid 7% div. since organization. Com. paid 1% in 1902, 4% in 1903 and 1904, and 2½% in 1905. None since. For yr. ending June 30, 1911, Co. earned 1.83% on com. Earnings since said to have shown big improvement. Treasurer A. M. Steinhardt is quoted as saying that business in the early spring was particularly good, and that if orders continued as satisfactory the directors would probably declare a div. on com. in Aug.

N. Y. Central.—*Five mos. net after taxes, $20,702,470, compared with $18,249,713 in 1911, which is increase of $2,452,757. May gross $21,731,932, an increase of almost $1,000,000 over corresponding mo. 1911. N. Y. Central proper gains $255,000 in gross. Up to June 1 of this yr. Co. did gross business of $41,000,000 and earned net of $6,000,000. The Vanderbilt system as a whole, consisting of 13,000 miles of railroad through most stable traffic territory in the country, has done $19,200,000 more business so far this yr. than it did in the same period of 1909 and after paying expenses had actually $100,000 less with which to meet interest charges. Total net of all lines in first quarter of 1911 declined 29% from 1910. First quarter figures this yr. showed a recovery of full 35%, but Apr. and May totals show losses so that five mos'. net is 13% ahead of 1911.—†Reports for 1911 showed surplus of $16,532,073 for divs. from operation of the N. Y. Central proper, and Lake Shore undivided earnings of about $6,000,000. Combined earnings for 1912 will probably be 11% to 12%. Increase of stock by subscription offering to shareholders would strengthen Co.'s financing ability through its proposed new mortgage authorizing total issue of $1,000,000,000 of bonds, inasmuch as the new bonds would be a legal investment for savings banks in the State of New York. There is room for a 50% increase in the stock issue.

N. Y., N. H. & Hartford.—*Combined income accounts of all the various properties making up the New Haven system will show 8% div. to have been very nearly if not fully earned. New Haven system made up of 14 different Cos.—†For 11 mos. of fiscal yr. ending June 30, 1912, Co. reports a gain in railroad revenue of $2,525,000 and net $1,293,000. Last yr. parent Co. reported a deficit after divs. of $1,267,540, but system as a whole fell short of div. by only $313,000. For six mos. ended Dec. 31, surplus for divs. was $7,810,584. Operating income for Apr. $1,642,817, against $1,629,188 for Apr., 1911, while that of past ten mos. shows an average gain of 7.57%.—*Co. will have to meet charges of approximately $18,300,000 and divs. at the existing 8% rate of $14,318,000.

N. Y., Ont. & West.—*Co. has passed regular 2% annual div. which was necessitated by poor showing which road will make in current fiscal yr. Deficit of $19,400 in 1911 after div. and for fiscal period ended this month, earnings of not over 1% are expected on stock. Passing of div. will mean a loss of $583,000 in "other income" for New Haven in its 1913 fiscal yr. New Haven owns $29,160,000 of Co.'s $58,113,983 com. on which 2% divs. have been paid since 1906. In 1905, yr. after New Haven acquired control, a total of 4½% was paid. Surplus for div. for ten mos. showed decline of 44.3% from same period 1911. April deficit after expenses $108,578.

N. Y. Railways.—*Four mos'. earnings of Co. showed surplus, after four mos'. interest on the $16,768,100 first real estate and ref. 4% bonds, of $317,694. This is equal to not quite 1% on the $31,933,400 adj. mort. 5% income bonds outstanding. Prediction made that for yr. ending Dec. 31, next, Co. will earn about 4.1% on income bonds.

Norfolk & Western.—†Earnings for divs. in current fiscal yr. will be in excess of $10 on com. Traffic this fiscal yr. larger than ever before handled, but greater economy in operation has been shown and earnings after charges have reached new high record. Gross in 10 mos. to end of Apr. $32,752,900, an increase of $3,042,000 or 10% over 1911. Net gained $950,400 or 9%. Cost of moving traffic has been reduced from 30.1% of gross to 29.7%. Maintenance charges abnormally heavy and now amount to over 30% of operating revenues.

Pennsylvania.—*May net after taxes of all lines $6,797,328, against $6,710,344 in 1911. Lines east of Pittsburgh and Erie gross increased $869,340; net increased $212,442. Lines west of Pittsburgh and Erie gross increased $1,008,233; net decreased $125,457. Whole system: May gross increased $1,877,573; net decreased $86,985. Evidence unmistakable that shares of Co. are joining the ranks of comparatively inactive stocks and are being absorbed for investment purposes.

Republic Iron & Steel.—*The mills are operating full, new business this mo. exceeding that of May by more than 30%. The Gates holdings, it is understood, are now concentrated in the hands of about ten wealthy steel manufacturers and bankers who have been identified with the Co. since John A. Topping became its head. John W. Gates credited with holding 40,000 shares of com. and pref. The business during last few yrs. has been greatly strengthened financially and physically. In first half of this yr. between 4 & 5% a yr. was earned on pref. Co. will

have spent close to $25,000,000 for new construction since organization. The result has been more than double the capacity of the Co. and is now able to produce close to 1,000,000 tons of finished steel a yr., placing it among the five largest steel concerns in the U. S.

Rock Island.—*Co. will probably earn only 4½%. The railway Co. has declared a total of 5% during the yr. It was desired that the operating Co. show a record of 5%. The extra ¼ of 1% will add a little more than $200,000 to the surpluses of holding Cos. The 5% div. require $3,743,460. On assumption that June, 1912, produces no gain over June, 1911, the balance for div. would be $3,000,000. To show even 4½% the gain will have to exceed $350,000.

Seaboard Air Line.—*Payment was completed for the Seaboard stocks formerly owned by the Cumberland Corporation, and delivery made to purchasers. Amount involved over $8,000,000, representing 90,000 shares of pref. and 120,000 com. of the Seaboard Air Line Railway. Such changes as may be made in the Seaboard board of directors would necessarily not take place until the annual meeting in November.—*Co. has purchased the entire $250,000 pref. and $500,000 com. of the Tampa Northern Railroad. Yr. ended June 30, 1911, total gross were $143,000, and deficit after charges $27,000.

Sears Roebuck.—*Sales of Co. in June fell off to $4,303,000, which is $2,000,000 less than the sales in May and by far the smallest for any month of yr. Increase over June last yr. was only $474,000, which is also the smallest gain reported since Jan. 1. For the six mos., however, the Co.'s total sales were $38,656,000, an increase of $7,168,000 or 22.77% over the corresponding period of 1911.

Southern Pacific.—(See Harriman Lines.)

Southern Railway.—*Co. has had a very successful yr. Gross and net largest in the history of the Co. Based on the 11 mos. showing total net income after payment of charges should amount close to $7,000,000, equal to between 11 and 12% on pref. Surplus for pref. for 1912 equal to $7,125,000, compared with $401,850 in 1908. Since 1908 gross revenues have increased over $10,000,000 or 20%. Net revenues in the same period have increased over $6,000,000 or about 60%, while surplus for pref. are now about 17 times greater than in 1908. In time road will doubtless have complete double-track line between Washington & Atlanta. At present Co. is double tracking portions of its line. On Feb. 1, 1913, the $10,000,000 debenture 5% gold notes mature and will have to be taken care of.

Studebaker Corp.—*Net income of Corporation for 15 mos. ended March 31 last, $2,544,727 and net surplus after pref. divs., $1,157,686 or 4.1% on the $27,931,600 com. In fiscal yr. ending Dec. 31, 1911, surplus on com. equal to 3.68%. During 10 yrs. to Dec. 31, 1910, the Studebaker half of the combine averaged $1,067,484. Last Feb. corporation sold $8,000,000 10-yr. 5% serial notes and the first semi-annual series of $400,000 matures Sept. 1, next. Pref. redeemable at $125 and accrued divs. after March 15, 1914. Under charter special surplus account of not less than 3% of the par value of the outstanding pref. shall be set aside annually out of the surplus or net profits, beginning July 1, 1912, and shall be used during the ensuing yr. to redeem the shares. No div. to be paid on com. until this fund amounts to $1,000,000, but may be used to pay pref. divs. if necessary and fund reimbursed later.

St. Louis & Southwestern.—*Directors of Co. at meeting declared a div. of 2½% making 4½% for the fiscal yr. In official statement directors refused to say whether the stock may now be considered a 5% issue, but there is unquestioned authority for saying that 5% per annum will continue to be paid indefinitely. Operating efficiency been greatly increased and business outlook is excellent. Earnings are expected to gradually mount to new high figures.

Texas and Pacific.—*In 10 mos. to Apr., Co. earned $3,113,637 net, increase of 13.7% over same period previous yr. and $1,040,000 in excess of full yr's charges. On present outlook Co. promises to close 12 mos. with surplus over charges equal to between 5% and 6% on its $25,000,000 income bonds. Despite floods which caused suspension on portions of the lines, April gross increased 18.1%. Net $7,000 under April, 1911. Co. expects shortly to do some financing to cover expenditures of terminal property contemplated in New Orleans.

Third Ave.—*Frederick W. Whitridge, receiver of the Third Ave. Ry. Co., has submitted his final report to Federal Judge Lacombe and states that all matters pertaining to the receivership have been settled with the exception of contest which still exists between a committee representing $1,100,000 of so-called certificates of indebtedness of the Dry Dock, East Broadway & Battery Railroad Co. and the Third Ave. Co., which owns $1,800,000 of the notes of the Dry Dock road. During period of receivership most of cars turned over by Metropolitan receivers have been sold or broken up, and that he has purchased in their place 754 new cars and entirely rebuilt 334 cars. Eighty-five storage battery cars have been purchased. Net earnings together with the proceeds from the sale of receivers' certificates have provided for expenditures and that $2,500,000 of these were finally paid by the reorganization committee.

Twin City Rapid Transit.—*Earnings of Co. for 1912 fiscal yr. from results in the first five mos. promise to exceed record results of last yr. Surplus ending May 30 was $808,554, compared with $797,669 of 1911. Co. has exhibited steady expansion in earning power and is now showing a substantial margin above its 6% com. div. Last yr. balance on com. was equal to 10.99%, compared with 10.88% in 1910, 9.94% in 1909 and 8.27% in 1908. Co. has exclusive franchise in Minneapolis and

perpetual in St. Paul and owns 390 miles of road.

Underwood Typewriter.—*Co. Will increase its com. div. rate this fall. At next directors' meeting it will be voted to put stock on either a 5 or 6% per annum basis. Majority of directors believe that a 6% rate is warranted by present earnings. For first six mos. Co.'s fiscal yr. net after depreciation charges were at rate of $1,500,000 per annum, compared with $1,277,597 net for 1911 and means that between 13 and 14% is now being earned on com. after payment of 7% div. on pref. In 1911, 10.92% shown on com. after pref. In by-laws of Co. provision to the effect that at least $1,000,000 must be laid aside from earnings before div. can be increased above 4%. About $400,000 laid aside for this fund during first two yrs., and impression prevailed that average of $200,000 would be laid aside each yr. for this fund, which would mean that there would be no increase in div. before 1915, but Co. is in position to turn out 20,000 more machines a yr. than at time of its incorporation. Speaking of the by-law provision for the special surplus reserve fund, a director said: "Reservation of $1,000,000 was purely a matter of bookkeeping."

Union Pacific.—(See Harriman Lines.)

United Fruit Co.—*Net for May & June will show at least $2,000,000, which is equal to 50% of maximum total Co. has earned in any one yr. from its fruit business. That was in fiscal period of Sept. 30, 1910, when importations of fruit produced net of $3,943,802. Last yr. fruit net was $3,733,204. European market short of fruit and demanding any possible surplus that may accumulate in the South after middle of July. Co. will make this yr. at its two mills a total of between 240,000,000 and 250,000,000 pounds of sugar, compared with 185,747,000 pounds a yr. ago and price received will be greater than last yr. Less than 8%*of its crop still to make and sell.

U. S. Cast Iron Pipe.—*Directors of Co. declared a quarterly div. of 1% on pref. beginning July 15. Last pref. div. was paid in June, 1912, and on Sept. 11, 1911, div. passed. Since div. is 7% non-cumulative, Co. has no accrued money to pay. Year 1910 was worst since 1900. Report for yr. ended with May will show surplus after $400,000 necessary to pay 4% on $15,000,000 pref. Co. earned 4.22% on pref., against 3.87% last yr. Eleven of Co.'s twelve plants being operated at full capacity.

U. S. Motor Co.—All creditors of Co. have agreed to extend time for payment of claims for 90 days. Maxwell-Briscoe, Dayton, Columbia, Brush, Alden-Sampson Cos., operating seven plants, together with selling cos. in various cities, are controlled by U. S. Motor Co. through National Motors Co. In addition to $6,199,000 shown in statement of above Cos., U. S. Motor claims plant and other investments of more than $10,000,000, against which it has outstanding $6,000,000 5-yr. 6% notes issued last year. Sales of Co. during June $2,000,000. In May, gross $1,600,000.

U. S. Realty.—*Business at present amounts to $20,000,000 or 17% in excess of same period a yr. ago. Indications are that percentage of gain will be maintained throughout yr. Income from rents on Co.'s permanent investments in office buildings also larger. During the last four yrs. Co. has earned average $717,571 a yr. above its div. requirements. Co. has entirely wiped out its good-will account, which in 1909 stood at $5,764,901. Surplus of $1,294,839 at close of last fiscal yr.

U. S. Rubber.—*Co. declared 20% extra com. stock div. This div. calls for issuance of 50,000 shares of com. at par to holders of the $25,000,000 of that issue now outstanding. Directors also passed necessary resolutions for offering of 100,000 shares of 1st pref. at par to all holders of three classes of stock to extent of 12½% of their present holdings. Usual quarterly div. of 2% on 1st pref., 1½% on 2d pref. and 1% on com. declared. Report showed that after setting aside $1,200,000 to meet these divs. Co. had balance for divs. of $5,000,000 or more than enough to cover 20% stock div. on com. shares. Estimated that production of tires in U. S. in 1912 will aggregate $120,000,000 in gross value, or four million tires at an average price of $30 per tire. Co. is building another big tire plant in Chicago, one of the largest in country, and its Canadian subsidiary is likewise building a million-dollar plant.

U. S. Smelting.—*It is understood that for six mos. to end of June 30 profits will be over $2,700,000, or average of $450,000 a mo. Net for divs. $2,200,000. Profits for first six mos. of this yr. would provide for full $3.50 pref. div. for this period, and leave for com. $1,370,000 or $4 per share. Co. earning $8 per share on com.

U. S. Steel.—*Mills of Corp. are operating at full capacity and are booked six mos. ahead with rail orders. Expected that close to 4,000,000 tons will be sold this yr. Car orders in market total 15,000 which will require between 150,000 and 175,000 tons of plates and shapes. Prices on all classes of steel increased $1 to $3 per ton July 1. Estimates of $23,500,000 to $25,000,000 net for second quarter of yr. are at least $2,000,000 too low, according to best-informed interests. Third quarter's net between $30,000,000 and $32,000,000. Co. consuming more copper than at any time in its history. Earnings for third and fourth quarters expected to be larger than reported in second quarter. Unfilled orders for June showed increase of 56,363 tons over May's total of 5,750,983. The 5,807,346 tons of June compares with 3,361,058 on June 30, 1911.

Va.-Carolina Chemical.—*Co. believed to have sold within 50,000 tons as much fertilizer as in the 1911 yr. or total of between 1,100,000 and 1,200,000 tons. 1911 net fertilizer profits $200,000 larger than yr. before. Co. manufactures fertilizers and has the business of the Southern Cotton Oil Co. Last yr. actual loss of $629,000 in cotton oil end of business, compared with a splendid profit of $1,450,000 in 1910, which was reason why com. stock prof-

its fell from 10.7% to 3.1%. This yr. cotton oil business has been decidedly more profitable and profit probably not less than $250,000. This should mean share profits for com. of 5%. Nothing in sight to hold out promise of more than 3% div. Balance of working capital on May 31 last $22,082,020, against $18,976,402 yr. ago. Last four yrs. Co. has shown increase of $18,000,000 in gross sales.

Virginian Ry.—*Co. sale of $25,000,000 1st mortgage 5% bonds was highly successful. Bonds are part of authorized issue of $75,000,000, $50,000,000 of which are reserved for future acquisitions. Cost of the present properties more than $50,000,000 or nearly twice total funded debt of $27,437,000. Net earnings estimated for yr. ending June 30, 1912, $1,800,000 and for fiscal yr. ending June 30, 1913, estimated at $2,600,000. Present interest charges, including interest on these bonds, amount to $1,371,850. Current coal tonnage of road at rate of 3,400,000 tons annually, and is estimated for 1913 at 5,000,000 tons and for 1914 at 6,000,000 tons.

Western Electric.—Returns for first half fiscal yr. for Co. shows $66,000,000 gross business. Goods billed during June were 10% more than for that mo. year ago, which makes this yr.'s six mos. aggregate of gross sales 2% ahead of corresponding six mos. in 1911. 10% increase for June is like abnormal increase of 17% shown in April and is due to special circumstances. Fluctuations by mos. in Co.'s business have been considerable this yr. to date. Jan. and Feb. were 9% and 2% behind the same mos. in 1911, March ran even with the preceding March, April showed gain of 17%, May a falling off of 3% and June an increase of 10%.

Westinghouse Electric.—*For first three mos. of fiscal yr. net of Co. ran at rate of 15% on com. compared with 6% last yr. and 12.34% two yrs. ago. Co. operating plants at highest possible percentage of capacity. Able management of Guy E. Tripp, chairman of board, given credit for better showing of Co. and in Sept. if present intentions of directors are carried out, com. stockholders will be voted div. of 3% making a total for this yr. up to that time of 4%.

Wabash.—†Co. reorganization plan has been decided upon and calls for: Assessment of $40 per share on pref. Holders of pref. will receive 100 shares of new pref. for each 100 now held. Also assessment of $40 per share on com. Holders of com. will receive 120 shares of new com. for each 100 shares now held, and retirement of 1st refg. and ext. bonds by the payment of 50% in cash and 50% in new pref. As there is $39,200,213 pref. and $53,200,213 com. outstanding, new capital resulting from assessment of $40 per share would amount to nearly $37,000,000. On June 30, 1911, Mo. Pac. Ry. and Iron Mountain Ry. owned $9,826,200 pref., $2,826,200 com. and $2,913,200 ref. and ext. 4's of Co. If estimates prove correct Mo. Pac. and Iron Mo. will be called upon to pay a cash assessment of $5,060,960 on their Wabash shares.

F. W. Woolworth Co.—*Total sales of all Cos. were $52,616,123. Net earnings of constituent Cos. for yr. ended December 31, were $4,955,255, which if continued at same rate under merger for current yr. will pay the cumulative 7% rate on new $15,000,000 pref. and leave at end of yr. $3,905,255, equal to nearly 8% on the $50,000,000 com.

Mining Stocks

This section of the Investment Digest includes some of the more important properties, in regard to which authentic and trustworthy information has appeared during the month.

Anaconda.—*The Co.'s statement for assessment purposes has been filed and figures show net proceeds this yr. on which Co. will pay taxes is $10,525,729.82, compared with $5,096,445 in previous yr., which may be accounted for in two ways. First, many new economies, and secondly, for the past six mos. production has been greatly increased and copper has been sold at a higher price than for a long time. Co. expended in labor $13,440,936.66, while there was paid for machinery, supplies, etc. $9,809,629.07. This will give some idea of the vast amount of money Co. has put into new and modern equipment during the past twelve mos.

British Columbia.—†The declaration of a 3% quar. div. again places this among the div. payers. The new div. is a slight increase over that of June, 1911, of 2½% quarterly. Co. is now operating to full capacity and making a very good showing as regards production and earnings. Production is running between 1,000,000 and 1,050,000 lbs. per mo. The management states that at present earnings are at the rate of about $60,000 per mo.

Calumet & Hecla.—*There has been an appreciation of $12,370,378 in market value of Co.'s holdings in subsidiary Cos. from the low prices of 1911. This is equivalent to over $123

per share on the 100,000 Cal. & Hecla shares outstanding. The big rise has been in Ahmeek, which has advanced within a yr. from 148 to 365, equivalent to $5,505,600 on the 24,-800 shares owned by Cal. & Hecla. Osceola had advanced 55% in past 10 mos., while Allouez and Superior have each advanced over $1,200,000.

Chino.—†The Guggenheim Explor. Co. has acquired 36,600 shares of Chino stock.—*The property is developing into a much larger mine than was ever expected. The engineers estimate that a cost considerably below 7c. per lb. would be possible, even on lower grade ore. Even with figures of 55,000,-000 tons of 2.24% grade ore, Chino has a life of thirty-one yrs., while on the tonnage figures its life would be more than forty-five yrs. on steam shovel ore.

East Butte.—†Copper stocks usually sell at an average price equal to about 12.64 times their yearly surplus earnings per share; and this would make East Butte figure to be worth about $25 per share in a 15.5 metal market with the $2,000,000 floating debt capitalized, and with a production going on at the rate of 18,000,000 lbs. per an. The net earnings for the yr. were more than double compared with previous 12 mos., being $250,187 for yr. ending May 31, compared with $118,986 previous yr. Upon present output with copper above 17c. Co. must be showing earnings at a rate of between $4 and $5 per share.

Goldfield Consol.—*Preliminary official estimates for June give gross values $542,000, operating expense $200,000, making net earnings $342,000. Estimated production was 32,360 tons.

Granby Consol.—†Co. appears decidedly better than it did a few mos. ago. The exhaustion of ore reserves promises eventually to be offset partly, or wholly, by favorable developments in the Hidden Creek property which was purchased in Oct., 1910. This contains 412 acres of crown-granted mineral rights, together with 600 acres of other land and valuable water rights. When the new smelter on this property is completed, it is estimated that the Hidden Creek mine alone will produce between 20,000,000 and 30,000,000 lbs. per an. and that Granby's total production will be 40,000,000 or 50,000,000 lbs. Earnings of Co. for two mos. have now exceeded the $130,-000 mark, which is at rate of $10 per share.

Greene-Cananea.—*Co. will meet some time in July to take action on the second div. which will be payable Aug. 31. The disbursement will be unchanged in amount, 25c. a share, but in effect it will place the stock on a $1 per an. unless plans are changed, another div. of like amount will be forthcoming 3 mos. later. The initial div. was declared 6 mos. ago.

Miami.—*Net profit, figuring on an 8c. per lb. profit during May, approximated $216,-000. A full quarterly period at that rate of earnings would result in net applicable for div. $648,000, whereas but $375,000 is now required. Co. declared the regular quarterly div. of 50c. a share, payable Aug. 15, to holders of record Aug. 1. Co. mined 89,900 tons of ore during June, the mill handling about 3,000 tons per day. Reported that ore has been disclosed for distance of nearly 500 feet below 570-foot level.

Ray Consol.—*Co. produced 3,150,000 lbs. of copper in concentrate during May, a record amount. Copper content averaged 1.73%, a slight improvement over earlier operations. Further gain is looked for until the mine's average of 2.17% is reached. Copper at 17½c. has resulted in profits of about 8c. a lb., or $252,000 on May's output. No div. action is likely before the first quarter of 1913.

Tennessee Copper.—§During remainder 1912 Co. should show decided improvement over very good record which Co. has made up to this time. It is expected that production will be maintained at the rate of 16,000,000 lbs. per annum. In one item of copper alone, difference in metal price between the last yr.'s average and the present quotation means to Co. on above output, additional income at the rate of $800,000 per annum. Co.'s earnings on increased production, also copper at its present price and including profits from the acid plant, should be at the rate of $1,500,000 per annum. After allowing for depreciation and retirement of bonds, there would still be remaining $1,-200,000. Management feels confident that for 1912 Co. will show earnings of at least $1,000,-000 after all charges have been made. Co. earning at rate of $7 per share.

Utah Consol.—*Co.'s operators for first six mos. of 1912 show shipments of 100,808 dry tons of copper ore, 8,025 dry tons of lead ore, from which net are estimated at $300,000 or $1 per share on its 300,000 shares. Reserves of copper ore placed at 239,650 tons, carrying 2.24% copper, .051 ounce of gold and .603 ounce of silver. Reserves of lead ore placed at 23,785 tons, averaging 15.44% lead, .032 ounce of gold, 3.01 ounces of silver and 1.04% copper. In addition there were 12,000 tons of low-grade lead ore. For 1911 Co. showed net profits of $438,430.

Utah Copper-Nevada Consol.—*During May Utah Copper made its record, turning out 10,068,336 gross lbs. of copper, which is 1,000,-000 lbs. increase over preceding mo. By Aug. Co. should be treating fully 20,000 tons of ore per day.—*Production of Nevada Consol. in May was 6,063,462 lbs., compared with 6,115,-095 lbs. in Apr. and 6,380,000 lbs. in Mch.

Copper Notes.—The world's visible supply decreased 11,989,439 lbs. in June, which brought the total on July 1 down to 137,-590,524 lbs. In addition stocks at Hamburg and Rotterdam decreased 3,263,680 lbs., making aggregate decrease at all points of which record is kept of 15,253,119 lbs. World's visible in first six mos. of 1912 decreased 80,178,-091 lbs. or 36.7% since July 1, 1910, when record amount of 401,139,697 lbs. had accumulated; there has been a decrease of no less than 263,549,173 lbs. or 65.7%. June production at 122,315,240 lbs. being lower than corresponding mo. in past three yrs. Deliveries showed pronounced drop of 127,595,789 lbs. against 142,188,222 lbs. in May.

TRADERS DEPARTMENT

The Law of Averages and the Stock Market

I—Some Basic Conceptions

By F. A. GIFFIN, M. A.

[In this series of articles Mr. Giffin, who is a well-known research engineer, will show that "manipulation," so called, has but small part in the making of stock prices, and that the smaller movements of the market correspond very closely with the scientific laws of probability.]

MANY different theories have been advanced to account for the ceaseless surging of that sea of quotations, called the Stock Market. We are told that its ripples and waves and billows—the minor fluctuations, speculative swings and fundamental movements—can be forecasted from the tape, also from technical experience and a study of statistics. Some claim that the market is dominated by powerful groups of designing manipulators, others that basic conditions of industry and finance must, in the long run, prevail. Some assert that prices merely reflect the current relation between supply and demand, while others look upon the market as a geometrically composite picture of the ever shifting psychological impulses of those who buy and sell.

This very multiplicity of attempts to fathom the stock market bears eloquent testimony to the widespread desire, yet tremendous difficulty, of reaching a satisfactory solution. In fact, some ability to forecast the trend of prices for not only securities, but also credit and commodities, has become an almost indispensable requisite for success in any business under the rapidly growing complexity of modern intensive specialization.

Unfortunately, an even superficial survey of the facts must convince us that it will never be possible to discover a method whereby *everyone* may profit by *each* fluctuation in the price of securities; so that the problem must always remain, as it is today, a contest of wit against wit.

For, since each transaction involves both a purchase and sale, it is not difficult to see that only in a bull market is it possible for everyone to make money; and even then there are many who must profit by fluctuations for which others lacked the patience or foresight to wait. In a bear market there must always be more lost than gained—not necessarily by one individual, but rather by the financial community as a whole, including investors as well as traders. Moreover, only a limited number of shares can be bought at the bottom of a decline, or sold at the top of a rally; and the smaller the fluctuations that one attempts to follow, the more restricted will the market be found.

Perhaps a clearer conception of these limitations may be gained through a brief survey of

THE HYDROGRAPHY OF THE STOCK MARKET.

As students of the subject well know, this apparently chaotic maelstrom of quotations has been analyzed by the late Charles H. Dow (one of the founders of the *Wall Street Journal*) into three more or less distinct currents, according to the size and duration of the price change:

The "Primary Movement," that covers a very wide range, and requires

months or years for its completion. It is caused by periodic changes in the underlying economic conditions of industry and finance throughout the civilized world, and the mightiest coterie of stock market manipulators would be unable to alter its course permanently. There are statisticians of high repute who claim that they can predict successfully the general trend of such primary movements. At any rate, one thing is certain—since millions of shares change hands between the ebb and flood of this mighty tide, there can be no lack of opportunity for a prophet to profit, both going and coming!

The "Speculative Swings," both with and counter to the primary movement, that last for days or weeks, and cover a range of tens of points. These swings are said to be caused by manipulation, current happenings and the technical workings of the market machinery. The number of shares that change hands between high and low is measured by the hundreds of thousands; so that there is usually a very fair opportunity to get in and out, even if one is accustomed to trade in 10,000-share lots. Moreover, if it were only possible to catch the top and bottom of each of these secondary cycles, net profits would pour in at an average rate of about one point a day, without pyramiding! Is it any wonder that manipulators and market letter writers should concentrate their efforts upon these speculative cycles?

The ephemeral "Chance Fluctuations," that persist for mere minutes or hours, and cover the brief range of a few points or even fractions thereof. Whatever one's opinion as to the possibility of predicting and profiting by the first two types of price change, it can never become possible to either foresee or take advantage of the majority of these chance fluctuations, which, like the primary movements, are frequently beyond the control, and seldom the object, of manipulative tactics. For these are chance ripples reflecting sudden shifts in the bid and offered prices with each fickle breath of rumor, or produced by the unexpected "butting in of rank outsiders" who may elect, without warning, to profit by the temporary weakness or strength of the market. Frequently they arise from the execution of those very orders for a few thousand shares by which one hopes to profit, and will fade away again with an equal profit seeking transaction in the opposite direction.

It is the purpose of the present article to study these chance fluctuations by the methods of

THE LAW OF AVERAGES.

To borrow from the teachings of science, we know that there are two distinct methods of treating any group of occurrences. If the group is composed of a small number of observable events, we may investigate each isolated event in turn until we gain a very fair knowledge of the associated causes and results in detail. But if the group is a very large one, made up of all sorts of events that are individually too small for clear observation, we may yet reach some considerable understanding of the nature of the group as a whole by statistical treatment of its component events in accordance with the methods of mathematical chance and probability—or *the law of averages,* as it is otherwise called.

Astronomers may never be able to study each star in the heavens, yet the law of averages is teaching them much that is valuable about the nature of space and the motions of heavenly bodies, far beyond the range of instrumental accuracy. Physicists have never observed a single molecule of matter, yet in their hands the law of averages has furnished an explanation of nearly all the important properties of gases, which are merely aggregates of innumerable molecules in rapid random motion and collision. No one can foresee how long John Doe is going to live, but insurance companies take almost no risk in insuring the lives of several million John Does of all ages, for the law of averages has taught them that, out of a certain number of men and women living at any given age, about so many will die the following year, so many the second year, etc.

So, through detailed study, it *ought to be* possible to learn much about each stock market cycle of the first type, it *may be* possible to understand each cycle

of the second type, but it *is not* possible to fathom the individual vagaries of each cycle of the third type. On the other hand, we shall be able to learn a great deal, by the statistical methods of the law of averages, about the chance fluctuations, considered as a group, that are individually so baffling; and even the speculative swings will yield greatly to such an analysis; but it is doubtful if the primary movements can be appropriately subjected to such treatment, since there are both upper and lower limits beyond which it is highly improbable that a stock would ever sell. The law of averages cannot be employed readily in discussing fluctuations that are artificially restricted in magnitude by inflexible barriers.

CHARTS.

Now any historical study presupposes a record of historical facts upon which inferences, to be reliable, must be based; and although such record may be kept in the form of either tables or graphic charts, we shall find the latter far more lucid, compact and convenient for the purposes of this discussion. It is unfortunate that the exploitation of charts by tipsters and lambs as a supposed means of predicting market movements has tended to obscure their legitimate statistical value and caused any reference to charts to be regarded with suspicion by the conservative element of Wall Street. We must not allow prejudice, however, to blind us to the fact that all branches of engineering and the pure science find charts indispensable as instruments of record and quick calculation.

Among the many forms of charts that are employed for recording stock prices, there are three principal types that it will be well to recall. These we shall refer to respectively as the *"Line Chart," "Unit Chart"* and *"Stop Order Chart."* All three resemble each other in so far as they are platted on cross-section paper, to a vertical scale of prices, and depend for their detail and scope upon the size of the smallest fluctuation of which they take cognizance. Their respective points of difference are as follows:

The Line Chart follows, by a line tracing, each fluctuation, whether up or down, that is greater than a certain selected minimum. Such an "one-point" chart will be found in each issue of THE MAGAZINE OF WALL STREET. Observe that, while no complete fluctuations of less than one point are shown on this chart, nevertheless each fluctuation that does appear thereon records the full range between high and low, including the terminal fractions.

The Unit Chart, on the other hand, depicts a stock as moving up and down by arbitrarily chosen full steps, or *units,* all fractions of such unit being neglected. In other words, each fluctuation is an exact multiple of the unit chosen. Suppose, for example, that a stock has risen from 158⅛ to 163⅞. On a one-point unit chart the record would appear as a rise from 159 to 163, constituting an Up fluctuation of four one-point units; on a half-point unit chart there would be recorded a ten-unit Up fluctuation, from 158½ to 163½; etc. A ⅛-point unit chart would be the only one to record the complete fluctuation as it actually took place; but such a chart would be too bulky for most practical purposes, so that it is customary to select a larger unit when the chief object in view is a graphic record of prices. The Unit Chart is frequently called by the less descriptive name, "Figure Chart," an example of which will be found on page 284 of THE MAGAZINE OF WALL STREET for October, 1911.

The Stop Order Chart, of which we have never seen a published illustration, resembles the Unit Chart in so far as each fluctuation is represented as an exact multiple of some arbitrarily chosen unit; but differs from it in that no fluctuation that contains less than a certain minimum number of units is recorded.

Suppose, for instance, that a line chart of a stock shows the following fluctuations:

From	159⅝
Up to	161⅜
Down to	160½
Up to	163⅞
Down to	160¾
Up to	169⅛
Down to	167⅝
Up to	169⅞
Down to	164¼

Then a "Half-point, Four-unit," Stop Order Chart (one in which each fluctuation is some exact multiple of a half-point; and no fluctuation of less than *four* such *units*, or *two points*, is recognized) would show the following fluctuations:

A fluctuation of 7 units, from 160 up to 163½;

A fluctuation of 5 units, from 163½ down to 161;

A fluctuation of 17 units, from 161 up to 169½;

A fluctuation of 10 units, from 169½ down to 164½.

We have called this a "Stop Order Chart," because it is just the kind of record that would be convenient for a trader who made a practice of following the trend of the market with a sliding stop order, kept a certain uniform number of units (four, in this instance) away from each fresh record price.

(*To be continued.*)

Notes on Office Trading

IV—The Unit of Trading and Its Management

A trader who has acquired a fair degree of market judgment and employs a competent method will, of course, not actually need to do more than decide upon his normal unit of trading and keep to it. He may be assumed to make about as many profits as losses at least, and the technical means he would employ to reduce the average size of his losses by stops, etc., would probably ensure that his aggregate profits exceeded his aggregate losses over a fair period of time. If his transactions were subject to the laws of probability in their strict form he could do nothing more, because the natural odds on the outcome of each single trade are equal.

It is not so, however, in practice, when a number of consecutive trades are considered. We see by the table that out of 126 cases where two successive losses occurred, 58 ran on to three or more, and of the 58 which ran on to three, 19 extended to four or more. It is, therefore, justifiable to increase the trading unit a little after two losses in succession, and more after three such losses—provided that it is not done in such a way as to impair the original relation between the unit of trading and the working capital. That is to say, it must only be done if there is profit-money that can be risked, and only to such an extent as not to materially impair the aggregate of such profit-money. To endanger the whole accumulation of profits in taking on extra stock is to run the risk of nullifying the advantage gained from a profitable period, or even to cause a whole season to end without good results.

During the eight seasons shown on my table the net profits have varied from about 93 per cent. to several hundred per cent. on the original capital at the beginning of the season. I base my calculations on the assumption that 100 per cent. is reasonably probable, as well as satisfactory. The season may be said to last ten months. I therefore must withdraw 10 per cent. a month before I am justified in increasing my unit. That being done, I consider it a fair risk to take 3 points of profit-money, and with it increase my unit by 50 per cent. after two consecutive losses, and if that trade shows a loss follow it up by taking two units for one more trade. But I discontinue the increase in any case after the second such trade. Evidently I am risking 1 point extra on the first and 2 points on the second trade. Total, 3 points.

The reasoning here is based on the proportion of cases of two and of three consecutive losses that are followed by further losses to the cases in which those trades are followed by profits. The result is, usually, that the loss made in the second losing trade (or the third, as the case may be) is at once measurably made

up, and the steady accumulation of profit-balance is resumed.

It will not do to carry the extra shares on beyond the second trade, even if that trade is a losing one, because the number of losses might go on to the limit, and I should lose too much of my accumulated profit-money. In that case I should have to increase my normal unit permanently (because it would require continuous trading on an enlarged scale to make up a series of losses made upon an enlarged scale), and that is only to be done subject to the restrictions laid down in the succeeding section of this article. Within the limits here assigned, however, I have found it of very great advantage to increase my unit temporarily.

Finally comes the question of permanently increasing the normal trading unit when a substantial amount of profit-money has accrued. Different considerations rule here from what obtained at the beginning of the season, because there is now less time for the laws of average to operate on the trades that remain to be made. Moreover, in every one of the eight years tabulated there was great irregularity in the productiveness, not only of the seasons themselves, but of different parts of each season. By far the larger part of the profits were made during periods not aggregating more than four or five months at most, and there was no sort of uniformity in the distribution of those periods over the season. The existence of the profit money, moreover, is of itself proof that a profitable period has just been experienced. Consequently a relatively lean period may be reasonably suspected to be imminent.

I increase my unit, therefore, as follows:

As soon as I have profit-money amounting to 125 per cent. of my original capital (including margin-money) I withdraw 75 per cent. and increase my unit 50 per cent.; when 100 per cent. more profit-money has accumulated I withdraw half of it and increase my unit another 50 per cent. I do not care to increase my unit sooner than this for the first two increases, because I must under no circumstances risk losing substantial profit-money when once made, until I have at least taken away from danger a

ANALYSIS OF LOSSES AND "DEFICITS."

Season.	No. of trades made	Runs of consecutive losses. 1.	2.	3.	4.	5.	6.	7	Largest Consecutive Loss.	Largest "Deficit."	Total Losing Trades.	% Losing Trades.	Average size of losses.
1903-4.........	139	14	11	6	1	..	..	..	6⅛ pts.	9⅝ pts.	58	42%	1.29 pts. (a)
1904-5.........	102	14	7	4	..	1	1	1	10⅜ "	14¾ "	58	57%	1.02 " (a)
1905-6.........	127	15	8	4	..	1	..	..	9 "	8⅛ "	59	47%	1.16 " (a)
1906-7.........	151	16	13	3	..	2	..	(b)	8⅛ "	12⅛ "	61	40%	0.89 " (c)
1907-8.........	122	15	6	5	3	1	..	..	5⅜ "	7¾ "	59	48%	0.83 "
1908-9.........	149	24	9	4	2	..	..	..	7¼ "	5⅞ "	62	41%	1.07 " (d)
1909-10........	181	22	9	7	..	1	1	..	9⅝ "	13⅜ "	74	40%	0.93 "
1910-11........	117	10	5	6	2	1	..	..	6¾ "	9 "	51	44%	1.01 "
	1,088	130	68	39	8	7	2	1			482	45%	0.79 (e)

(a) I did not finally abandon 3 point stops until December, 1905. Since then my losses have averaged smaller.
(b) One series of eleven consecutive losses, totaling 7⅜ points, occurred.
(c) Largest per cent. profit on capital this season. Chiefly due to exceptional profits on short side in February and March, 1907.
(d) Smallest per cent. profit this season. Early part of season not profitable.
(e) Average from 1906-7 to 1910-11 only, i. e., since using 2 pt. stops exclusively.

liberal percentage on my capital. Having got the 125 per cent. safe, however, I will increase in smaller instalments as opportunity offers during the rest of the season, but always taking away as much as I add to my trading capital. It will be noted that on my profit and loss record of January 27, given above, I have not yet accumulated 37½ points, so I am still using my original unit. These increases of course are chiefly rendered possible when the early part of the season happens to be quite profitable, and naturally they tend to increase in geometrical progression towards the end of a consistently successful season.

The method described is much easier to carry out in practice than to describe. In order to apply the suggestions herein contained to the operations of other traders it is essential that they be methodical traders, and that they keep records of each transaction from which data similar to those given herein can be derived.

As "Rollo Tape" has very truly observed, in the last analysis everything depends upon the man behind the method. He must have judgment, a sound technical method systematically controlled, and —the nerve to follow his method, no matter where it leads him. Stock trading is not easy money, and the trader must give himself every possible advantage of method and systematic work if he expects to make a permanent success of it.—B.

Most traders who are now making money have had to pass through a good many years of haphazard trading, and have lost large sums of money in the process. The people who make money have no particular incentive to tell Tom, Dick and Harry how they do it. Most of us have long ago discovered how thankless a task that is. Conditions are different in the case of those who will read these words. It may be taken for granted that they are serious students who have read this magazine from the beginning. (If they have not, the sooner they possess themselves of a complete file the better.) I am of opinion that such students, availing themselves of such helps and hints as are now within their reach, should not require more than three or four years before they can determine whether or not they are fitted for office trading.

One of the peculiarities of the novice in this business seems to be an absolute unwillingness to be guided by the advice of those whose opinions are founded on experience. Any old trader who has "arrived" is not in the least likely to say much about big profits, and is extremely likely to talk a lot about losses. Beginners don't like to hear about losses. They read the advertisements and circulars of the tipster fraternity, and ——!

I believe it is possible to suggest a course of logically-developed study of the theory and practice of office trading along the lines that obtain in all technical professions. The office trader ought to pass through three stages: (1) Study of the market; (2) Experimental trading; partly for the purpose of evolving a workable trading method, suited to his idiosyncrasy, and partly for the highly essential training of his own self-control; (3) Systematic trading, during which, and for the rest of his career, he should be finding his technical skill increasing and his market judgment becoming more and more reliable.

It's Not What You Make, but What You Keep That Counts.

A TWENTY-POINT profit means nothing unless followed by more profits or by losses totaling much less than twenty points.

Your progress cannot be gauged by any one trade, but by monthly or yearly operations which show consistent money-making after all losses, commissions, interest, tax charges, etc., are deducted.

A losing day, week or month is significant only when considered in its relation to what preceded or followed.

A profit of ninety points in nine months is good or bad, according to what is accomplished in the other quarter of the year.

INQUIRIES

This department is to answer miscellaneous questions in regard to the science of investment, method of operating, the customs of the markets, etc. It is intended for the use of subscribers only. Please write questions briefly and, if personal reply is desired, enclose stamped and self-addressed envelope. Address INQUIRY DEPARTMENT.

Broker's Discretion.

I recently instructed my broker to sell my holdings of a certain stock at the best price obtainable on the following day. The stock sold over a range of about two points, and my broker sold the stock almost at the bottom. Have I not cause for complaint?—L. R.

Presumably not. An order to sell at the best price obtainable is simply an order to sell at the market. Your broker does not claim to be able to exercise discretion in selling your stock. If he could pick out the best price obtainable during the entire session, he would soon be doing a phenomenally large commission business, for his services would be in tremendous demand. He leaves you to exercise the discretion and merely executes your orders as you give them.

Checks on Brokerage Houses.

I notice that some brokerage houses issue check books for the use of customers. What is the understanding in such case? Will the broker honor checks so long as the customer has a cash balance, or will he retain ten or twenty points margin on open trades?—B. J.

Usually there is no very definite understanding in regard to checks. The broker assumes that the customer will not draw checks unless he has a sufficient balance to take care of them, as well as to protect open trades. If a check should come in which would reduce margins to the danger point, the broker would doubtless communicate with the customer before paying the check. If he could not do this, he would naturally be obliged to refuse to honor the check.

Transferring Account.

I desire to transfer my account from one broker to another, but I have numerous open trades. Is it necessary for me to close all these trades in order to make the transfer?—S. P.

No; you have only to notify your present broker that you wish him to transfer all trades and open orders, together with your balance, to the other broker, as designated by you; also to advise the new broker that you have done this. Neither broker will make a charge for this transfer.

Ticker Service in Small Cities.

L. B.—Stock ticker service in cities outside of New York is none too reliable. The instruments appear to be inferior and continually getting out of order, and frequent errors occur, so that the tape reader is somewhat handicapped. Under the circumstances, your best plan would be to ignore the volumes, since you cannot rely upon them. Work on supply and demand, support and pressure, as set forth in "Studies in Tape Reading." This is the only remedy we can suggest.

"Technical" Conditions.

I do not fully understand how the stock market can be fundamentally strong and technically weak at one and the same time. It is often described in practically this way by reporters.—J. T.

What is meant in this case is that general conditions are good and the broad tendency of the market apparently upward, but that, for one reason or another, the floating supply of stocks has at the moment become largely lodged in weak hands, so that on any decline large miscellaneous selling might occur.

There is no contradiction in this. During a prolonged upward movement, many lightweight speculators are attracted into the market, and after a time they are likely to get loaded up beyond their capacity. In such a case, an active drive at prices may exhaust the margins of these traders or frighten them into hurried selling. This may happen absolutely without any regard to the strength of the fundamental situation. Of course, such a movement will not proceed far, and it merely affords the conservative investor a good opportunity to pick up stocks at a bargain.

"Pegged."

What is meant by the statement that a stock is "pegged" at a certain price?—L. T.

This is one of the terms used in traders' jargon to indicate that some one is believed to stand ready to purchase all offerings of the stock at a fixed price. Of course, such a thing is not impossible, but we believe it is very unusual. Ordinarily, these "pegs" exist only in the excited imaginations of speculators. Investment demand is not likely to be all at one price. Orders would

naturally be scattered over a wide range. And where large interests are active in a stock, there is usually no reason for their buying all offerings at a fixed price, when they might just as well buy some of these offerings cheaper by merely "standing from under" for a short time. Speculative gossip of this character is, as a rule, not to be taken seriously.

Allis-Chalmers "1st Paid."

Will you please advise me what the money value is of the following quotation: "100 Allis-Chalmers common 1st paid, 1⅞?" I assume it to be $187.50, but am in doubt as to the basis used under the reorganization plan of 35 shares of common and 10 shares of preferred, for each 100 shares old common.—C. T.

On this basis the old stock is worth ⅞ and the $1 per share assessment makes up the 1⅞. Nine dollars per share additional is payable on this stock beginning October, as called by the committee. When the full assessment of $10 per share is paid, you will receive in exchange for this "full paid" certificate, thirty-five shares of new common and ten shares of new preferred.

New High Price Ex-Dividend.

Union Pacific made a high price of 175⅝ on April 9. Since then a dividend of 2½% has come off. In looking for a bullish indication this month, would you make allowance for this dividend? That is, would the stock have to cross 175⅝ or 173⅛ to give a bullish indication? If the stock crosses the old high this month I should say a larger rise would be indicated than if it had done so, say, the latter part of April. Do you regard this reasoning as correct? —G. B.

We should make no allowance for the dividend in trying to figure a bullish indication on Union Pacific. We cannot take this crossing of the high price as an infallible rule. It all depends on the accompanying indications; that is, what is happening on the tape at the time the new high price is made. There are so many phases of this branch of market interpretation that we would not, if we were you, attempt anything of this kind along mechanical lines.

Crediting Dividends.

I have 20 shares Great Northern on margin and wish to know if the dividend for which the books close July 11, will be credited to my account at once by my broker on that date, or not until its payment on August 1. If I should sell between the closing of the books and the payment of the dividend, would I lose the dividend?—D. S.

Your broker will credit your account with the amount of the dividend on the day that it is collected from the Great Northern Railway Co. If you are long on the day the books close, you are entitled to the dividend, and you can sell if you like between that time and the date of payment without forfeiting your dividend.

Collateral Margin.

Instead of putting up cash as margin, I would prefer to buy a good stock and put that up. In doing this, will you kindly tell me the safest mode of procedure, so that I could claim my certificate no matter what happened to the broker? Would it not be a good plan to have the certificate registered in my name, and notify the transfer office not to transfer same without my written consent? I want to select the safest way to trade, and would be thankful for your suggestions. I would have no objection to the broker using the certificate in his loan account, providing I could get it back if he should fail.—C. J.

In regard to depositing a certificate to be used as collateral margin, you could not have the certificate registered in your name in the manner you suggest, because in that case the stock would not be "a good transfer," so called, and the broker would not be able to sell the stock if he should find it necessary to do so in order to protect himself against losses on your account. Of course, the best plan is to select a house in which you have confidence enough so that you do not fear the possibility of their failure. You could, however, request your broker to write you a letter agreeing to keep your certificate always in his own vault, providing the broker was willing to make this arrangement.

In case of the broker's failure, if you have a record of your certificate and can identify the same, and if the certificate is found by the receiver among the broker's possessions, you can then get the certificate back by paying any debit balance which may stand against you on the broker's books. Usually, when a broker is in danger of failure, he is likely to borrow on all available collateral, and when his failure becomes imminent, the banks holding the collateral may dispose of it in order to protect themselves. For this reason the certificate is, in many cases, not found among the broker's possessions; but if you hold his agreement to keep the certificate in his own vault, and not to sell or hypothecate it unless such action should become necessary because of a large debit balance on your account (which you, after proper notice, failed to make good), the broker would then place himself liable to arrest under the criminal law if he should convert the certificate to his own use.

This matter is fully explained in volume 5, page 212, of this magazine, and is also referred to in volume 6, pages 42 and 93.

Trend Letter Averages.

I am a subscriber to your trend letter. With your letter you inclose every week, a sheet giving the quotations of the week, and at bottom of page you give a list of averages of the different days. Will you kindly give me the list of the Industrials and Rails that you employ for that purpose? It would be a great help to me to be able to compute these every day myself.—J. B.

We use the familiar "Dow-Jones" averages, which are computed daily and published in "The Wall Street Journal." Closing bid prices are used—not the last sale.

The twelve industrial stocks are: Amalgamated Copper, American Car & Foundry, American Smelters, American Sugar, Central Leather common, General Electric, National Lead, People's Gas, United States Rubber common, United States Rubber 1st preferred, United States Steel and United States Steel preferred.

The twenty active railway common stocks are: Atchison, Baltimore & Ohio, Canadian Pacific, Chicago & Northwestern, Chicago, Milwaukee & St. Paul, Delaware & Hudson, Erie, Illinois Central, Lehigh Valley, Louisville & Nashville, Missouri Pacific, New York Central, Rock Island, Southern Pacific, Southern Railway, Norfolk & Western, Northern Pacific, Pennsylvania, Reading, Union Pacific.

Announcement

IN the September issue we shall publish the first of a number of Editorial Articles showing how the people can and should make use of and profit by the machinery of Wall Street.

This will be in addition to the special articles announced on page XI.

Readers frequently ask to be referred to responsible brokerage houses. In making such a request, please state what amount you have for investment, or in what sized lots you wish to deal. Also state what large city is located most conveniently to you, or if you have any preference in this regard.

We refer our readers only to such houses as we would consider safe custodians of our own funds, but of course can take no further responsibility.

The Figure Chart

The following figure chart completes the chart on page 108 of the July, 1910, MAGAZINE OF WALL STREET, down to date given below. It is based on the daily average closing bid price of 20 standard railway stocks, and gives a general view of the course of the market since June, 1910:

June, 22, 1910.			July, 27.		Aug. 17.			Oct. 18.			Feb. 20, 1911.			June 7.					Sept. 27.			Nov. 23.					Apr. 20, 1912.					July 18.
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15	15				15			15	15		15						15	15			15				15							
	14				14	14		14	14	14	14							14	14	14	14											
	13	13			13	13		13	13	13	13							13	13	13	13											
	12	12	12		12	12	12	12	12										12	12												
	11		11		11	11	11												11	11												
			10	10	10														10													
			09	09	09																											
			08	08																												
			07	07																												
			06																													

*100 is subtracted from each figure in order to condense the chart. Thus 19 represents 119, etc.

Essential Statistics Boiled Down

THE figures below give a complete view of the financial and industrial situation, with the best available comparisons for the corresponding month (or nearest month obtainable) in each of the four preceding years.

	Average Money Rate Prime Commercial Paper New York.	Average Money Rate European Banks	Per Cent. Cash to Deposits, New York Clearing-house Banks.	Per Cent. Loans to Deposits, New York Clearing-house Banks.	Per Cent. Cash to Deposits, All National Banks.	Per Cent. Loans to Deposits, All National Banks.	Money in Circulation Per Capita First of Month.
July, 1912	4⅜	3½	25.1	98.2	.....	....	$34.26
June, 1912	4	3½	26.7	96.3	16.2	102.6	34.61
May, 1912	4⅛	3¼	26.1	97.2	.....	....	34.56
July, 1911	3⅞	3⅜	26.3	97.4	17.3*	102.8*	34.35
" 1910	5¼	3⅛	27.5	100.6	15.5*	103.2*	34.52
" 1909	3⅜	3	27.3	94.0	18.1*	103.3*	35.01
" 1908	3¼	3	28.9	93.9	19.4	106.1	34.81

*June.

	New Securities Listed N. Y. Stock Exchange (000 omitted)	Bank Clearings of U. S. (000 omitted)	Bank Clearings of U. S. Excluding N. Y. City. (000 omitted)	Balance of Gold Movements —Imports or Exports. (000 omitted)	Balance of Trade Imps. or Exports. (000 omitted)
June, 1912	$272,743	$13,697,536	$5,736,445	Ex. $1,537	Ex. $6,941
May, 1912	113,452	14,883,783	6,104,005	Ex. 1,104	Ex. 19,697
June, 1911	166,751	13,834,186	5,618,651	Im. 1,692	Ex. 18,899
" 1910	152,566	13,841,758	5,477,437	[illegible] 2,977	Ex. 8,011
" 1909	141,417	14,155,364	5,043,660	[illegible] 5,978	Im. 7,245
" 1908	304,265	9,835,204	4,181,344	Ex. 5,177	Ex. 23,262

	Gibson's Index Cost of Living.	Bradst's Index of Commodity Pcs.	English Index of Commodity Pcs.	Wholesale Price of Pig Iron.	Produc'n of Iron (Tons.) (000 o'td.)	Price of Copper (Cents).	U. S. Production of Copper (Lbs.) (000 o'td.)	U. S. St'l Co. Unfill. Tonnage (000 o'td.)
July, 1912	116.6	9.11	2705	$15.88	....	17.1	......	.....
June, 1912	120.4	9.10	2687	15.55	2,440	17.3	122,315	5,807
May, 1912	122.7	9.27	2693	15.61	2,512	16.1	126,737	5,750
July, 1911	110.0	8.59	2517	15.13	1,787*	12.4	124,554*	3,361*
" 1910	115.5	8.92	2362	16.50	2,265*	12.2	127,000*	4,257*
" 1909	112.8	8.45	2176	16.88	1,930*	12.8	116,000*	4,057*
" 1908	107.3	7.82	2190	16.65	1,092*	12.7	......	3,313*

*June.

	Net Surplus of Idle Cars.	Building Operations, Twenty Cities.	Business Failures. Total Liabilities.	Crop Conditions. Winter Wheat.	Crop Conditions. Spring Wheat.	Crop Conditions. Corn.	Crop Conditions. Cotton.	Babson's Average 10 Leading R. R. Bonds.
July, 1912	64,024	....	....	73.3	89.3	81.5	...	97.4
June, 1912	86,386	$57,545,437	$13,630,238	74.3	95.8	...	80.4	97.3
May, 1912	130,098	59,434,953	14,076,671	79.7	...	...	78.9	97.6
July, 1911	163,621	56,409,783*	13,173,987*	76.8	73.8	80.1	88.2*	98.2
" 1910	142,865	50,116,725*	10,289,920*	81.5	61.6	85.4	80.7*	96.8
" 1909	259,697	62,067,000*	11,255,168*	82.4	92.7	89.3	74.6*	102.0
" 1908	303,042	46,358,000*	16,210,397*	80.6	89.4	82.8	81.2*	95.4

*June.

The Situation Summarized

[While an attempt is here made to divide the important factors into favorable and unfavorable, this classification is for convenience only. It should be fully recognized that the same factor may have a bullish effect in one direction and bearish in another, or may be bullish in its immediate influence, but containing dangerous possibilities for the future. Also, it would be impossible to strike a balance in this way, as one bullish factor might be so important as to outweigh all bearish considerations, or vice-versa.]

Favorable

Crops.—Cotton, corn, oats and spring wheat all indicate a fairly favorable outlook, though, of course, all except oats still have a critical period before them. Small crops are mostly doing well. An excellent crop of hay has been gathered. In general, the crop outlook may be called about average.

Presidential candidates of high character and attainments have been nominated by both Republican and Democratic parties. The outlook for the "third party" is uncertain. At present it is hardly taken seriously, but it may develop.

Imports of raw material by American manufacturers are running about forty per cent. heavier than last year. This indicates that manufacturers look for better business.

Iron and steel business continues active with some further advance in prices. However, prices are still comparatively low and profits of companies moderate on that account. United States Steel Corporation orders show a small increase for the month, on top of a heavy output.

Copper stocks continue to decrease, but doubtless there is a somewhat larger accumulation of unrefined copper at refineries, and of copper in second hands.

Railway extensions continue in the Northwest, especially in Canada, where the Canadian Pacific is extensively double tracking.

Railroad equipment orders for the first six months of the year were more than double those for the corresponding months of 1911. Steel rail orders were fifty per cent. more. 1911 orders were small.

Illinois Central will introduce electric service on all lines inside Chicago city limits within five years.

New York subway situation is now settled, as the Court of Appeals has decided that the legislation authorizing subways is constitutional. Construction is in progress, and will involve enormous expenditures. Necessary financing already arranged.

Railroad gross earnings continue large, but the increase cannot be saved for net, by most roads. An active condition of business is shown.

Labor.—Chicago freight handlers' strike settled. No summer suspension in Pittsburgh district. Various threats have failed to result in trouble, and general situation is improved.

Bank clearings large for entire country, indicating good business activity.

Stocks of goods on hand continue very small. Retailers show no disposition to stock up as yet, but general sentiment is hopeful. Many are waiting on the crops.

Unfavorable

Money market shows a disposition to harden. Demands over July 1 caused a temporary deficit in New York bank reserves. It is believed that higher rates are probable in the fall, if business maintains its present activity. Time money and commercial paper are a little higher than last year. Real stringency looks improbable.

High grade investments are still hard to sell both here and abroad. London underwriters have recently been compelled to take up a large part of several issues offered. Consols are at a new low price again, lowest since 1826.

All national banks of the United States, according to the latest returns to Comptroller of Currency, show an unusually large proportion of loans to cash, and very large investments in "bonds and other securities." However, the per cent. of loans to deposits is still relatively low.

Democratic platform was a radical pronouncement. Regardless of the merits or demerits of the policies proposed, the possibility of such important changes tends, at least temporarily, to discourage the investment of capital in new enterprises. Wilson's speech of acceptance is now awaited as a further interpretation of the platform.

Winter wheat crop small, owing to reduced acreage and low condition.

Cost of living shows a slight reduction, as measured by index numbers, but is still high and continues to cause political unsettlement and trade uncertainty. This appears to be the most serious and permanent of the unfavorable factors in the situation.

Railroad conditions are rather unsatisfactory. Taxes and fixed charges are constantly increasing, while net earnings are either stationery or decreasing. Some roads are exceptions, of course.

Ontario & Western passes its dividend. Further reduction in St. Paul dividend is feared, perhaps to 4 per cent.

Tariff uncertainty is probably restricting activity in certain lines. A few newspapers are attempting to raise the old cry of "Free Trade," in the hope of frightening industry for political effect.

New financing for six months breaks all records. While not immediately dangerous, this is not a healthy indication for prices of securities already outstanding. The whole world wants more improvements and extravagances than it can save the money to pay for.

The Outlook

Some of the Factors Beneath the Surface of Current Events

By G. C. SELDEN

THE general course of railroad stocks for ten years is shown in chart form below. The last week given is that ending July 13, 1912.

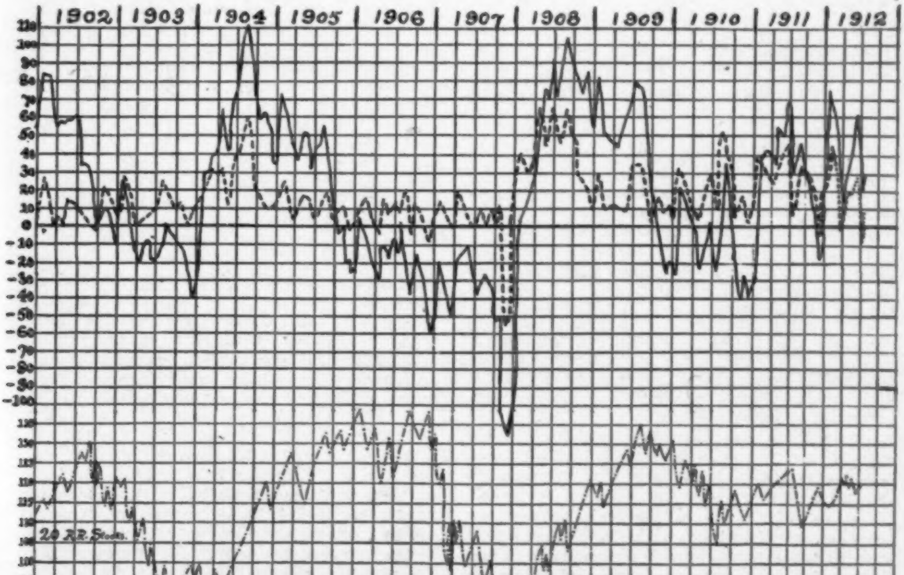
The diagram also shows, in millions of dollars, the course of excess deposits and surplus reserves of New York clearing-house banks (excluding the trust companies). The zero line represents equality of loans and deposits.

Position of New York banks. In the latter half of June both excess deposits and surplus reserves took a sharp dip, the former dropping from $60,000,000 to $20,000,000 and reserves going to a deficit of about $8,000,000. The banks were obliged to raise money rates a trifle in order to restore their reserves, but the natural return of money after July 1 made this easy enough to accomplish.

Some months ago I commented on the fact that in every genuine bull year back to 1902, the high point of excess deposits in the middle of the year, in the recess between crop planting and harvesting, was higher than the high point of the preceding winter, in the interval between the crop movement and the spring planting. This year has failed to show such a new high point.

As regular readers of this column are aware, I use this excess of deposits over loans as a rough index of the accumulation of liquid capital. Since 1896, at least, a sort of cyclical swing in stocks may easily be distinguished, running from three to four years, and comprising an upward and a downward movement of prices. Low points were touched in 1896, at the end of 1899 (only a small downward movement here because of strong upward swing for the 20-year cycle), 1903, 1907, 1910. Of course, one "leg" of such a cycle may be much longer than the other, either in time or in price movement or in both. The cycle is distinguished and determined by the broad movement of financial forces rather than by prices alone.

As each of these short cycles progresses, the accumulation of liquid capital tends to culminate earlier in the year. For example, in 1904 the high point of excess deposits, about $110,000,000, came late in August; in 1905, about August 1; in 1906, about August 1; in 1907, early in June. In the next cycle, the high point of 1908, about $100,000,000,



occurred about September 1; 1909, in July. The downward movement in this period was checked in the middle of 1910 and a new accumulation, much more fitful and irregular than 1904 or 1908, began in August. It was interfered with by heavy demands for crop movement, but was strongly resumed in January, 1911, culminating about July 1. A still higher point was reached in January, 1912; but it appears that the recent downward movement of excess deposits marks the end of the summer accumulation. This occurred in the first half of June.

On this basis, one would say that the present three or four years up-and-down swing of the market was at least half over, in point of time. The upward movement, since the low point of July, 1910, has been slow and irregular. It started from a relatively high level and there has never been behind it any such tremendous fund of liquid capital as existed in 1904 or 1908. It is hard to see at this time where such a fund could come from without a far greater degree of general business liquidation than we have yet had.

It is, of course, understood that the above considerations have no bearing upon the immediate market. They are long-range factors only.

The Comptroller's report. The most noticeable feature of the figures recently given out for all National banks in the United States is the expansion of loans and deposits in comparison with cash. The per cent. of cash to deposits is 16.2, which compares with a high point of 20 per cent. in 1908, and a low point of 15 per cent. in 1910. Since the stock market liquidation of 1910, we have never at any time seen any such accumulation of idle cash in banks as occurred in 1904 and 1908. The highest per cent. reached was in June, 1911—17.2 per cent.

The reason of this is that, while we had a sharp stock market liquidation in 1910, we had no important liquidation in general business, in real estate, or in commodity prices. Hence cash was not released from business uses and did not reach the banks in any large volume.

An accumulation of idle money is the proper fuel for a bull market. Until this is available it may safely be assumed that upward movements in stocks will be moderate and limited.

Turning to the per cent. of loans to deposits of all National banks in the United States, we find that this has remained practically stationary around 103 for over a year. It will be remembered (see Volume 7, page 101, of this magazine) that the movement of this figure is directly opposite to the trend of the stock market. During a bull market, the ratio of loans to deposits falls; during a bear market it rises. Consistently with this rule—which is, of course, based on sound reasons—this per cent. rose to nearly 107 in the summer of 1910, and during the following year fell back below 103. During the past year it has remained nearly stationary, and it must be said that the stock market has done the same. I do not find any period of three months since 1897 when the market has remained so nearly motionless as during the last three months.

New financing. All the above figures point to the same condition—inability to accumulate liquid capital for investment in the stock market because of the high cost of living and the heavy demand for national, State, municipal and corporation expenditures.

For example, in the first half of 1912 American railroad and industrial corporations have announced $1,557,000,000 of new securities, against $1,229,000,000 for the corresponding period of 1911. This figure breaks all records. The largest increase was in stocks of industrial corporations—$370,000,000, against $148,000,000 last year.

This is evidently one of the places where the public's money is going, instead of into existing stocks and bonds. Most of these new stocks bear a high rate of interest. Many of them are meritorious. Some are not. In one prominent case at least investors have already suffered a rude awakening.

Other vast sums are going into the Panama Canal, the New York subways, the New York State barge canal, various big irrigation projects, and costly municipal improvements in nearly every city and town. Most of these undertakings are certainly very useful and desirable, but we are sinking a great deal of capital in unproductive or doubtful enterprises, and that at a time when the high cost of living makes it difficult to accumulate. I can't get away from the belief that a period of exhaustion must follow within a few years. It is to be hoped, however, that the severity of this period will be mitigated by the great increase in the productivity of labor which has occurred since our last era of stagnation, 1893 to 1896.

Politics. In view of present political unsettlements, it is interesting to recall that the bear market of 1896 reached its lowest point in August, when the Bryan meeting at Madison Square Garden proved a "frost," and prices gradually stiffened from that date until after the election of McKinley. In 1900, the low point was touched in June, when Bryan was nominated. His election was believed to be impossible and the market advanced during the rest of the year. In neither 1904 nor 1908 was there any evidence that the stock market was affected by politics. Both were years of rising prices, following the severe liquidations of 1903 to 1907.

The effect of politics on the market is usually much overestimated. The market pays little attention unless some real and definite danger is to be apprehended from political changes.